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PREFACE

IN the lengthening file of published Proceedings of the Academy of Political Science this volume is of uncommon interest, not only because it marks the Fiftieth Anniversary of the foundation of the Academy, but more particularly because of its intrinsic value as a singularly authoritative appraisal of the Young Plan.

The Young Plan is more than an ordinary milestone in post-war history. As a financial transaction by its very magnitude it challenges analysis. It marks, moreover, the growing tendency of statesmanship to call upon economic experts for the solution of problems which have defied conventional methods of diplomacy. It is a settlement designed to liquidate at last the vexed problem of reparation, after more than a decade of difficulty and dispute, and to terminate a conflict which has perturbed European politics ever since the Armistice. But it is even more. As an attempt to provide in the Bank for International Settlements a medium for organized international financial coöperation, it may conceivably have a significance that will outlast and overshadow the whole series of reparation payments.

The Plan is now in effect, and the new Bank at Basle has opened its doors. How is the project working out in practice? Will it stand the test of a world-wide economic depression? Is there any reason to anticipate a revision of Germany's obligations? Will the Bank for International Settlements prove to be in reality a World Bank? These are but a few of the questions which are being asked, and to which the speakers addressed themselves at the Academy's Annual Meeting (Fiftieth Year).

The meeting of which this volume is intended to serve as a record was held at the Hotel Astor in New York City on November 14, 1930, and was attended by an unusually large number of Academy members and guests, many of them coming from considerable distances. There were three sessions. The Morning and Afternoon Sessions in the North Ballroom were

devoted respectively to the topics "Liquidating the War" and "America's Interest in the Settlement". At the Dinner Session, which taxed the capacity of the Grand Ballroom, there were four addresses on various aspects of "International Collaboration", ranging from the background of the current world depression to the outlook for future world coöperation.

The extraordinary interest displayed in these sessions was largely due to the fact that the Academy was exceptionally fortunate in bringing together a most distinguished group of economists, bankers and diplomatists for a discussion of topics as timely as they were, and are, significant. Among the speakers were two of the Experts on the Young Committee of 1929, the Chairman of the Organization Committee which set up the Bank for International Settlements, the President and a Vice-President of that Bank, the Ambassador who represented the United States in Berlin during the Dawes Plan discussions, and subsequently in London, the Undersecretary of the United States Treasury, an officer of the Federal Reserve Bank of New York, an economist who had recently made a notable study of German's financial situation, a member of the Transfer Committee under the Dawes Plan, the former Finance Director of the Office for Reparation Payments under the Dawes Plan, the former Accountant General of the Reparation Commission, the Commissioner General who accomplished the financial reconstruction of Hungary under the auspices of the League of Nations, a former adviser to the Bank of England, and one of its present Directors.

The following list, arranged in the order of the program, indicates some of the special qualifications of the speakers and the topics which they discussed.

First Session: Liquidating the War

W. RANDOLPH BURGESS, who presided at the Morning Session, is a member of the Board of Directors of the Academy. Having served in the World War with the rank of major, he returned to Columbia University to take the degree of Ph.D. In 1920 he entered the service of the Federal Reserve Bank of New York, becoming later Assistant Federal Reserve Agent and recently Deputy Governor. He is the author of a valuable book on "The Reserve Banks and the Money Market".

SHEPARD MORGAN, Vice-President of the Chase National Bank, spoke on the topic "Conditions Precedent to the Settlement". Mr. Morgan's intimate and expert knowledge of the reparation problem was acquired during the years he spent in Berlin as economic adviser to the Transfer Committee and later as Finance Director, Office for Reparation Payments. He went to Paris at the instance of the Chairman of the Committee of Experts in 1929 and wrote the sections of the Young Plan dealing with the Bank for International Settlements, which, after consideration by the appropriate subcommittee, the main committee adopted in its report. He later participated in the final work on the Statutes of the Bank of Baden-Baden and The Hague.

JACKSON E. REYNOLDS, who described "The Bank for International Settlements as the Focal Point of the Settlement", was the Chairman of the Organization Committee which met at Baden-Baden in the autumn of 1929 to draw up the statutes and charter of that Bank. He also played an important part in the international conference at The Hague, by which the Young Plan was given official sanction. Mr. Reynolds speaks with authority both as a banker and as a lawyer. For a number of years he practiced law in New York City and at the same time served as a professor of law at Columbia. At present he is President of the First National Bank of the City of New York and a Director of various large corporations. As Chairman of the Program Committee he was largely responsible for the successful development of the Academy's program on "The Young Plan in Operation".

GATES W. MCGARRAH is President of the Bank for International Settlements, whose operations and policies he so well described in his address at the morning session. In order to accept leadership in this significant international enterprise, Mr. McGarrah resigned his position as Chairman of the Board of the Federal Reserve Bank of New York. Mr. McGarrah was a member of the General Council of the Reichsbank in Berlin throughout the life of the Dawes Plan and has had a long and distinguished career as a commercial banker in New

York. He was Chairman of the Mechanics and Metals National Bank of New York and later was Chairman of the Executive Committee of the Chase National Bank.

WALTER W. STEWART, who discussed the future of the Bank for International Settlements, combines in an unusual degree practical banking experience with scientific training in economic theory. From an instructorship in economics at the University of Missouri his promotion to a professorial chair at Amherst was rapid. He left Amherst, however, in 1922, in order to serve as Director of the Division of Research and Statistics of the Federal Reserve Board. From 1928 to 1930 he was Economic Adviser to the Bank of England. He participated in the early discussions on the Bank for International Settlements during the Paris Conference and was a member of the British delegation at Baden-Baden. Returning to New York City in 1930, he accepted chairmanship of the board of Case, Pomeroy and Company.

GEORGE P. AULD, who led the discussion at the close of the Morning Session, is a partner in the firm of Haskins and Sells. He served as Accountant General of the Reparations Commission from 1920 to 1924, the year the Dawes Plan was adopted. Since then Mr. Auld has remained in close touch with the reparation problem and his lectures and writings on various phases of this subject have commanded public attention.

Second Session: America's Interest in the Settlement

ALANSON B. HOUGHTON, who presided at the Second Session, is President of the Academy of Political Science. He resigned from Congress in 1922 in order to represent the United States in Berlin as Ambassador to Germany, from 1922 to 1925, and in London as Ambassador to Great Britain, from 1925 to 1928. Mr. Houghton has long been engaged in the glass industry at Corning, N. Y., and is Chairman of the Board of the Corning Glass Works.

OGDEN L. MILLS, who spoke on "America's Separate Agreement with Germany", is Undersecretary of the United

States Treasury. Admitted to the bar in 1908, Mr. Mills practised law in New York and took an active part in public affairs, as well as in the management of various business enterprises. He was elected member of the New York State Senate in 1914 and reelected in 1916. In the World War he served with the A. E. F. in France. He represented the 17th New York District in Congress from 1921 to 1927, when he resigned in order to accept his present post in Washington. Mr. Mills is a trustee of the Academy of Political Science.

JOSEPH E. STERRETT, whose address at the afternoon session was an appraisal of the effects of the reparation settlement on American trade and investments, was one of the able administrators who helped to make the Dawes Plan a success. From 1924 to 1927 he was American member of the Transfer Committee, which controlled the transfer of reparation payments under the Dawes Plan. Mr. Sterrett is a partner in Price, Waterhouse and Company.

JAMES W. ANGELL is Associate Professor of Economics at Columbia University and author of an admirable volume on "The Recovery of Germany", analyzing German economic developments since the war. His address at the Afternoon Session, on the topic "America's Rôle in the International Economic Situation", was in a sense an outgrowth of that study, with particular reference to present problems as the United States shares in them.

DEWITT CLINTON POOLE, who led the discussion at the close of the Afternoon Session, is Chairman of the Advisory Board of the new School of International Affairs at Princeton University. Mr. Poole has served as vice-consul at Berlin and Paris, as consul and as chargé d'affaires in Russia, as chief of the Division of Russian Affairs in the State Department, as a member of the technical staff at the Washington Conference, as consul general at Cape Town, and as counselor at the Berlin embassy. In the last-mentioned capacity, during the years 1926 to 1930, he was able to view the reparation problem at close range from the standpoint of American diplomacy.

Third Session: International Collaboration

THOMAS W. LAMONT, of J. P. Morgan and Company, presided at the Dinner Session. The abbreviated record in these pages fails to do justice to his felicitous remarks as toastmaster, but his discussion of "Phases of the World Depression" is given in full. Mr. Lamont's association with reparation negotiations extends from the Paris Peace Conference of 1919 to the drafting of the Young Plan, ten years later, by a Committee of Experts of which he was a member. He has contributed to the solution of many other economic and financial problems, as chairman of the American group participating in the International Consortium for the Assistance of China, as chairman of the International Committee of Bankers representing Mexico's foreign creditors, as chairman of the American committee to finance famine relief in China, and otherwise. Mr. Lamont has long been a trustee of the Academy of Political Science.

SIR CHARLES STEWART ADDIS, K.C.M.G., the distinguished guest of the Academy at the Dinner Session, delivered an eloquent address on "The Outlook for International Coöperation in Finance". For many years Sir Charles guided the policies of the Hongkong and Shanghai Banking Corporation in China, and he is now chairman of its board in London. Of his many interests and responsibilities perhaps those most pertinent in this connection are his position as a Director of the Bank of England and his participation in the reparation settlement. He was a member of the General Council of the Reichsbank in Berlin during the period of the Dawes Plan. In 1929 he served as one of the British members of the Committee of Experts which devised the Young Plan. He was likewise a member of the Organization Committee of the Bank for International Settlements. When the Bank was established at Basle, Sir Charles was named as a Director and Vice-President; he thus bears a generous share of responsibility for the successful operation of a project in the formulation of which he rendered such important service.

GATES W. MCGARRAH (*supra*), who delivered his principal address at the First Session, was again called upon at the

Dinner Session, and made a brief speech on "Economic Pessimism".

JEREMIAH SMITH, JR., was with the American Commission to Negotiate Peace at the Paris Peace Conference of 1919, as counsel to the Treasury Department and adviser on financial questions. From 1924 to 1926, serving as Commissioner General of the League of Nations for Hungary, he carried out with striking success the program of financial reconstruction. He continued his services to international coöperation, in following years, as a member of the Financial Committee of the League of Nations. In 1929 he took part in the negotiations at Paris, when the Committee of Experts drafted the Young Plan. Mr. Smith has practised law in Boston since 1896 and is a member of the firm of Herrick, Smith, Donald and Farley.

The officers and directors of the Academy desire to record here their sincere appreciation of the contribution which these distinguished speakers have made both to the Academy and to the public interest, by their participation in this program.

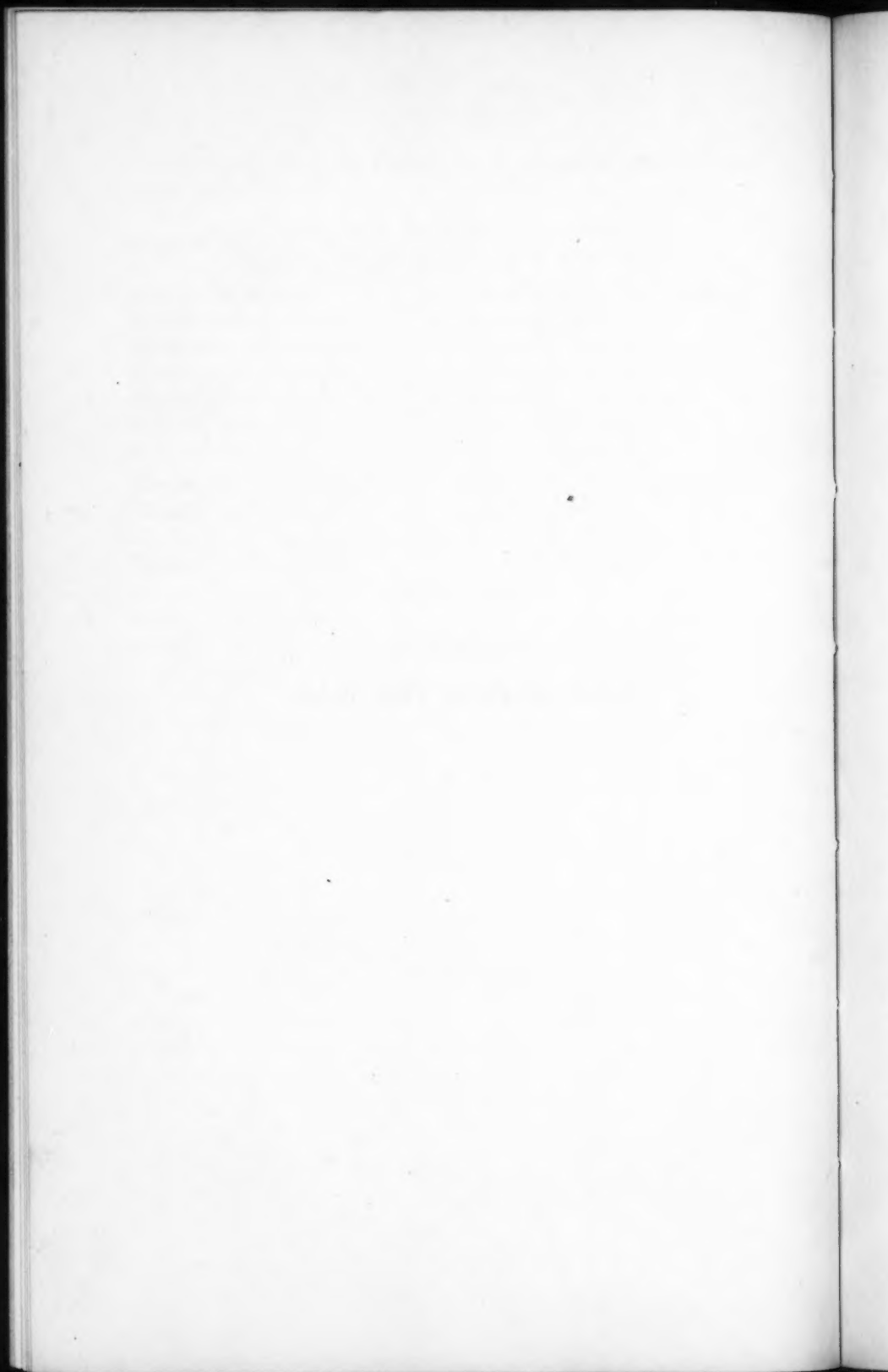
To the chairman and members of the Committee on Program and Arrangements, by whose wise counsels and generous coöperation the success of this meeting was assured, the Academy gladly and gratefully recognizes its debt. The chairman of the committee was to have been a director of the Academy and a distinguished economist, Professor Henry Rogers Seager. His death was a very great loss to the Academy and a source of profound sorrow to his friends and colleagues on the Board of Directors. As his successor in the chairmanship of the Program Committee the Academy was exceedingly fortunate in securing Mr. Jackson Reynolds, President of the First National Bank of New York; and to Mr. Reynolds very special recognition is due, not merely for stepping into the breach, but for the preëminent part he had in framing and executing so successful a program.

The members of the Committee on Program and Arrangements were:

JACKSON E. REYNOLDS, *Chairman*
ETHEL WARNER, *Executive Director*

WILLIS H. BOOTH	SAMUEL McCUNE LINDSAY
FRANK ALTSCHUL	R. C. McCREA
WINTHROP W. ALDRICH	OGDEN L. MILLS
W. RANDOLPH BURGESS	PARKER T. MOON
JOSEPH P. CHAMBERLAIN	WILLIAM L. RANSOM
PAUL D. CRAVATH	SAMUEL W. REYBURN
NORMAN H. DAVIS	GEORGE ROBERTS
JEROME D. GREENE	EDWIN R. A. SELIGMAN
GEORGE L. HARRISON	ALBERT SHAW
ALANSON B. HOUGHTON	MYRON C. TAYLOR
THOMAS D. LAMONT	PAUL M. WARBURG
	OWEN D. YOUNG

PART I
LIQUIDATING THE WAR



INTRODUCTORY REMARKS¹

W. RANDOLPH BURGESS

Deputy Governor of the Federal Reserve Bank of New York

IT gives me pleasure to call to order the fiftieth anniversary meeting of the Academy of Political Science. For fifty years the Academy has fostered the public discussion of important national and international questions by students and responsible men of affairs. The idea of the Academy was conceived by Dr. John W. Burgess on a battlefield of the Civil War. Standing on sentry duty amid the carnage of a great battle he resolved that he would devote himself to a search for means by which men might learn to avoid war. The Academy was conceived as a method for bringing the searching light of reason to bear upon national and international problems in the hope that thereby men's relationships to each other might be bettered. With this background it is particularly appropriate for the Academy at its fiftieth anniversary to discuss the Young Plan in operation, for the Young Plan embodies new experiments in international relations, new methods of avoiding conflicts and promoting understanding.

The Young Plan is a successor to the Dawes Plan of 1924, which was one of the most extraordinary experiments ever tried in the field of international relations. It set up a novel method for the administration of reparation payments. It placed extraordinary power in the hands of an official whose duty it was to live with the reparation problem and adapt the flow of payments to the economic life of the debtor country. For six years Mr. S. Parker Gilbert, the Agent General for Reparation Payments, with his staff, lived in Berlin and learned to know intimately the economic implications of large payments by a debtor to a creditor country. The observations of Mr. Gilbert and his staff have been made permanent in a

¹ At the First Session, over which Dr. Burgess presided.

magnificent series of reports in which were studied objectively yet intimately the economic developments in Germany over this period. It is essential that our consideration today of the Young Plan should begin with a review of the background provided by those six years of thorough analysis of the problem of debt payments. This survey will be given by Mr. Shepard Morgan who was Mr. Gilbert's right-hand man, first as economic adviser to the Agent General, and then as finance director of the Office for Reparation Payments. He also participated at Paris in the negotiations leading to the Young Plan and at Baden-Baden in the forming of the Bank for International Settlements. It is no secret that he had a large share in drafting the statutes of that bank.

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CONDITIONS PRECEDENT TO THE SETTLEMENT

SHEPARD MORGAN

Vice President, Chase National Bank; formerly Finance Director,
Office for Reparation Payments, Berlin

THE Dawes Plan falls in that class of institutions which by reason of their success bring about their own termination. In these times when the whole world is suffering more or less acutely from economic depression, one frequently hears it said that the Dawes Plan came to an end too soon and that the Young Plan was born under an unlucky star; that it would have been better to let the success of the Dawes Plan continue and to postpone the attempt to arrange a complete and final settlement of the reparation problem until a more convenient season. To my mind this is prophecy after the event, and more than that, a prophecy which takes account primarily of present, and, I trust, temporary difficulties. It overlooks what was actually the fact, that the Dawes Plan had worked itself out, and was really in process of inviting new dangers as serious perhaps as any that it had removed. Indeed, far from coming to an end too soon, the argument, I believe, is the other way around, for the delay in bringing the Young Plan into effect has proved a detriment to all concerned.

The transitory character of the Dawes Plan was one of its cardinal features. It was aimed to provide an interval in which confidence, basic to internal as well as international economic welfare, could be restored. It was not presumed to offer a final solution of the reparation problem, but to foreshadow such a solution. The machinery which it set up for the accomplishment of its purposes could not have been other than transitional, for it was placed under the supervision of foreigners, and it was not to be assumed that foreign controls should remain in Germany after the main purposes of the Plan were achieved.

The objects which the Dawes Plan was intended to attain were of course the outcome of conditions existing at the time

it was framed. When the Committee of Experts met in Paris in January, 1924, Germany was on the point of collapse after a period of inflation such as no highly organized country had experienced theretofore. Whole classes of the population had been dispossessed, with the result that social relationships had suffered fundamental upheaval, releasing powerful forces the effects of which are still to be seen. Preliminary steps toward stabilizing the currency had already been taken by the Germans themselves. But the result, in the language of the Experts, was not stabilization but unstable equilibrium, which, if it was indeed to pass from its state of doubtful balance, required external assistance strong enough not only to restore the confidence of the rest of the world in German credit, but to reestablish the confidence of the Germans in themselves. In the field of reparations the position was still more doubtful. Payments had ceased, following the complete disruption of the mechanism of receipt and transfer, and the prospect of resumption was slight unless special methods were taken to that end.

The scheme which the Experts proposed for dealing with this extremely difficult and complicated situation went into effect on September 1, 1924. Its general intent, of course, was to reestablish Germany as a going concern. Its specific purposes were in the main three — first, to put the receipt and transfer of reparations on a workable basis; second, to assure the stabilization of the German currency; and third, to bring the German budget into balance. These purposes were interdependent, for, in the long run, no one of them could be achieved without the others' being achieved also. The Plan fixed no limit to its duration, and consequently no limit to the capital sum which Germany in the course of years would be called upon to pay as reparations. But it did fix the amounts which were to be paid each year as long as the Plan should remain in force.

A special and important feature of the Plan, one which has aroused a vast amount of discussion because of its economic implications, was the provision that has come to be known as the provision for transfer protection. The Experts carefully distinguished between the payment of reparation funds by Germany and their transfer to the creditor countries. Pay-

ment in gold marks was made the "definitive act" of the German Government in meeting its obligations under the Plan, whereas the function of transfer was placed in the hands of the representatives of the creditor countries. The foreign representatives, in particular the Transfer Committee, while charged with the general duty of securing the maximum transfers, were under obligation to exercise their powers "to the extent to which, in the judgment of the Committee, the foreign exchange market will permit, without threatening the stability of the German currency". Thus, the focus of attention under the Dawes Plan was directed at transfer as distinguished from payment, and the test of transfer capacity was to be the condition of the foreign exchanges.

The effects which the adoption of the Dawes Plan brought about are well known. Its first and most direct consequence was the withdrawal of reparations for the time being from the battleground of politics, with benefits which continued to operate until September, 1928, when the decision to call the Experts' Committee of 1929 again threw the whole matter into the field of controversy and agitation. But its broader consequence was the restoration of confidence, which opened the way for the reestablishment of German credit and the rehabilitation of German industry and trade. Its three specific purposes with respect to reparations, the currency and the budget were also achieved, fully in the beginning, less completely at the end. With these several results I desire now to deal, somewhat in detail, for from them will appear the reasons why it became necessary to bring the Dawes Plan to an end.

The strictly reparation function was carried out in full. The sums called for under the schedules of the Plan, slightly modified, however, by agreement in 1926, were paid and transferred in full. The German authorities fulfilled their obligations with respect to the payments, which amounted for the five annuity years to nearly eight milliards of gold marks or about two billion dollars. About half this sum was transferred in the shape of disbursements within Germany, mainly for goods and services comprised in deliveries in kind; and about half in the shape of foreign currencies purchased through the agency of the Reichsbank. All these sums were transferred,

as the Plan prescribed, "without threatening the stability of the German currency".

Much has been written and spoken by way of explaining the success of transfer. Some of these explanations do not stand analysis. For example, one is often told that reparations have been transferred because Germany has borrowed so largely abroad. This argument takes notice of two items only in the international balance of payments, which is a very long and complicated account. It is obviously unsound and illogical, aside from other defects in the argument, to earmark an item on one side of this account, namely loans, against an item on the other side, namely reparations, and to maintain that the one has paid for the other. All the other items in the balance of payments are left out of the reckoning, such for instance as exports and imports of goods, services rendered and services purchased, sales and purchases of shares and other participations in business enterprises, and so on. More broadly, also, the argument implies that the inflow of foreign funds, to the extent that it equalized in amount the outflow of reparations, served no useful purpose. Such an implication is open to serious question, particularly as concerns the first years of the Dawes Plan, for it was then mandatory, if Germany was again to attain her proper place as an industrial and commercial country, that foreign funds should enter the country. Finally, the practical test of the soundness of the argument is whether the foreign borrowing taken as a whole more than paid its way, and whether at the close of the calculation the values existing in Germany, less the foreign debt incurred, were larger than at the beginning. No observer of the economic progress Germany has made since 1924 can doubt that such in fact has been the case.

The notion that transfers and hence reparation payments were made out of borrowings is very widespread; but the transfer problem lies deeper than this argument suggests, deeper I believe than the Dawes Plan itself contemplated. I would recall to you the limits on transfers which the Dawes Plan imposed: transfers were to be made to the extent which the foreign exchange market would permit without threatening the stability of the currency. But the fact is, and experience under the Dawes Plan clearly showed it, transfers pri-

marily affect the general money and credit markets, and only secondarily affect the foreign exchange market. If one can assume adherence to the gold standard and competent administration of the central bank—both of which conditions prevailed during the life of the Dawes Plan—the mechanical effect of transfers is to raise interest rates in the domestic money markets, because they withdraw funds formerly circulating there. In operating in this way, transfers join hands with all the other demands effective there, causing funds to flow in from domestic and foreign sources, stimulating the sales of goods abroad, restricting sales of goods at home, producing some abatement of the use of credit, and so on. To the extent that funds are attracted from abroad, whether as loans or in return for goods sold, or otherwise, the foreign exchanges are favorably affected, and do not register the effects which transfers may be having on the domestic economy.

The transfer clauses of the Dawes Plan were written when Germany had only tentatively returned to the principles of the gold standard and when the riotous experiences of the inflation were still fresh in mind. Against a return of inflation they offered substantial protection, and so played an important part in the restoration of confidence. But they were never invoked, and when the time came to write transfer clauses into the Young Plan their substance was fundamentally altered, so as to take account of the primary effects of transfer to which I have referred.

The second of the three specific purposes which the Experts of 1924 had in mind when they framed the Dawes Plan was to assure the stability of the currency. The results can be quickly stated. The German currency, throughout the period of the Plan, satisfied both internally and externally the practical requirements of the gold standard. Its position in the foreign exchanges remained within the limits determined by the gold points both upward and downward, and the inflow and outflow of gold and its equivalent responded in normal fashion to the measures adopted from time to time by the Reichsbank. Its internal value, as expressed in the commodity price level, also moved within the limits expected of a gold-standard currency. In general, the currency was never

in danger of instability nor in threat of danger, a position which it still fully maintains. This result was due, certainly as far as central banking measures could account for it, to the expert and vigorous administration of the Reichsbank, for the Dawes Plan followed the accepted principle of giving the central banking institution the facilities for maintaining the technical soundness of the currency.

The third purpose of the Experts, namely the balancing of the German budget, was not so fully achieved. Indeed, it was in this department that the experience under the Dawes Plan proved more disappointing than in any other. At the outset of the Plan the budget was brought into balance, and thereby completely satisfied for the time being the expectations of the Experts; the revenues, in fact, developed to an extent far exceeding their expectations and provided funds amply sufficient to meet the legitimate demands for public expenditure, including the discharge of Germany's obligations under the Plan. But, as revenues rose, expenditures rose still faster, with the result that one budget after another fell out of balance.

The difficulties with the budget began first to manifest themselves in 1926 and 1927, as part of a broad program of spending. This was not confined to the central authorities—that is to say, to the Government of the Reich—but was followed fairly generally throughout the public administrations, including those of the states and cities. The surpluses which had been built up in the trying years immediately after stabilization were exhausted, and resort was taken on a particularly large scale to borrowing both at home and abroad.

The economic effects of this rapid growth of spending and borrowing varied from one period to another, but were almost always against the good of the community as a whole. In 1927, for example, under the stimulation of low money rates and an active bond market, especially in New York, foreign loans were granted in great volume to the German states and cities and also to various enterprises fully or partially under public control. Under this stimulation the entire German economy expanded; commodity prices rose, the volume of domestic credit increased, and industry and trade greatly enlarged the production and distribution of goods, laying the

foundation for a later recession. In 1929, on the other hand, when foreign loans were infrequent and of small consequence, the public authorities found themselves under great pressure for funds with which to carry out their engagements and competed with one another in the domestic markets, raising interest rates against themselves and against the private borrower.

The successive budgetary deficits, with their serious implications for the future, furnished a compelling reason why the creditor countries were prepared to favor the termination of the Dawes Plan. The unbalanced budgets, it is true, did not offer any present danger to the stability of the currency, for under the law it was impossible to make up the deficits by resorting to the Reichsbank or to the printing press. But they did exert serious and continuous pressure on the money markets, which was bound sooner or later to curtail private enterprise and bring about business depression. This in turn was likely to result in undoing an important part of the laborious work of reconstruction and in magnifying the weight of the reparation burden, perhaps to the point where reparation obligations would not be fulfilled.

As early as October, 1927, the Agent General for Reparation Payments addressed a memorandum to the Finance Minister of the Reich pointing out the dangers which then threatened and their implications with respect to reparation policy. This memorandum was sent with the fact fully recognized on both sides that the German Government under the terms of the Dawes Plan was free to prepare and administer its own budget, and acted throughout on its own responsibility. Nevertheless, the conditions under which the Dawes Plan functioned were such as to remove two important checks which would otherwise have tended to correct a policy of overspending and over-borrowing—the very policy indeed which was at the root of the existing difficulties. In the first place Germany, being without knowledge of the total amount of her reparation debt, did not possess the normal incentive to conserve her finances against the ultimate extinguishment of that debt. In the second place, the factor of transfer protection tended to create a vague sense of safety in the minds of both borrowers and lenders and so encouraged the too free use of credit.

In his report to the Reparation Commission, published in December, 1927, some two months after the despatch of his memorandum to the Finance Minister, the Agent General referred to the protected system then in operation, and drew the following conclusion, "As time goes on, and practical experience accumulates, it becomes always clearer that neither the reparation problem, nor the other problems depending upon it, will be finally solved until Germany has been given a definite task to perform on her own responsibility, without foreign supervision and without transfer protection". While he did not then specifically propose that steps be taken forthwith toward the final settlement which the Dawes Plan itself foreshadowed, he pointed out that the only alternative to the protected system "was the final determination of Germany's reparation liabilities, on an absolute basis that contemplates no measure of transfer protection".

The effect of these statements on the part of the Agent General was to bring the question of the final settlement into the forefront of discussion. Germany, for her part, recognized the temporary nature of the Dawes Plan, the disadvantages inherent in the foreign controls and supervisions, and the benefits that would accrue to her from the determination of the amount of her reparation obligations. Moreover, though she was not prepared to admit an absolute connection between the evacuation of the Rhineland and a reparation settlement, yet she realized that in point of time the one would follow the other. The creditor countries, on the other hand, in addition to their general desire to have the reparation problem brought finally to a settlement, were more or less agreed that transfer protection, as the Dawes Plan provided for it, was contrary to their interests, particularly because it constituted an effective bar to marketing obligations secured by annuity funds.

The first formal step toward the settlement was taken at Geneva on September 16, 1928, when the representatives of six Governments, including Germany, agreed that a committee of independent financial experts be entrusted with "the task of drawing up proposals for a complete and final settlement of the reparation problem". About a year and eight months later, that is to say, on May 17, 1930, the work of these Experts came into full force and effect. The Dawes Plan

organizations in Berlin were disbanded, the relations of the Reparation Commission with Germany were terminated, and Germany assumed full responsibility for the payment and transfer of reparations.

There is no need to compare the Young Plan with the system it superseded, because such a comparison is given in compact form in the text of the Plan itself. It did not of course satisfy the wishes of any of the numerous countries which finally accepted it; instead it represents the resultant of the opposing forces brought to bear on it. But it incorporates two principles which mark a decisive stage in the whole history of reparations.

The first of these is the recovery by Germany of mastery in her own house. The principal defect of the Dawes Plan, the defect indeed which stamped its temporary character, was the installation within Germany of foreign organizations charged with a direct responsibility for the receipt and transfer of reparation payments and with a more or less intangible responsibility with respect to fundamental economic situations and movements. Under the conditions prevailing when the Dawes Plan went into effect such foreign controls and supervisions were necessary, not only for the purposes of the creditor countries but as part of the general reconstruction scheme and for the protection of Germany herself. Yet after a comparatively short interval the protective features represented in the foreign organizations ceased to have positive value and became instead the screen behind which public spending and borrowing developed and flourished.

The change from one system to the other has come none too soon. The German Government, as the first and dominating feature of its program since recovering full responsibility, has undertaken to restore order to the public finances. Previous Governments, it is true, have attempted the same thing; but without support from the Reichstag and the main body of the people, their efforts have failed. Now, however, popular opinion seems to be aroused more than at any previous time, a fact which should come to expression in action by the Reichstag itself. Delay in facing the problem has made it progressively more acute and more difficult to deal with, but to settle it is at once the price and perhaps the most beneficial result

of the freedom Germany regains under the Young Plan. If indeed finance reform is effected and the widespread consequences of over-spending and over-borrowing are removed, Germany may well be the first of the great industrial nations to emerge from the present depression.

The second point which I desire to emphasize is the greater flexibility for dealing with reparation problems which the Young Plan provides. In assuming exclusive responsibility for the payment and transfer of reparations, Germany obtained the right, first, to suspend transfer for a maximum period of two years of all or part of the postponable portion of the annuity; second, at any time when postponement of transfer has been in effect for a year or more, to postpone payment of fifty per cent of any sum then susceptible of transfer postponement; and third, to call upon the Bank for International Settlements to summon the Special Advisory Committee, whenever transfer postponement has been declared, "or", in the language of the Hague Agreement, "at any other time when the German Government declares to the creditor governments and to the Bank for International Settlements, that it has come to the conclusion in good faith that Germany's exchange and economic life may be seriously endangered by the transfer in part or in full of the postponable portion of the annuities". The Hague Agreement goes on to state that the Special Advisory Committee "shall forthwith consider the situation in all its aspects, as provided in the Plan, and shall indicate for consideration by the Governments and the Bank what, in their opinion, are the measures that should be taken in regard to the application of the Plan".

In the light of experience with the Dawes Plan the language used in the foregoing clauses has a special importance. Under the Dawes Plan, it will be recalled, transfers were to be carried out to the extent to which "the foreign exchange market will permit, without threatening the stability of the German currency". Under the Young Plan, however, no limitation of that sort survives, for Germany acting on her own initiative may declare a postponement of transfer, and so meet an exceptional emergency of whatever economic nature. The same is true with respect to a postponement of payment. And in the event that Germany, without resorting to postponement

of transfer, desires to cause the Special Advisory Committee to be summoned, the basis for action is not simply danger to the exchange but to economic life in general.

This shift of emphasis from the foreign exchanges to conditions basic to the German economy changes the nature of transfer protection entirely. From the German standpoint, relief in a dominating emergency can be obtained under the Young Plan, even if the barometer of the foreign exchanges does not yet register a storm. From the standpoint of the creditor countries, on the other hand, the broader provision offers protection against a merely technical interruption of transfer, for no responsible German Government would be willing to bring down upon the German economy the serious consequences which would follow a postponement declaration, unless the dominating emergency already existed. Furthermore, and this has a special bearing upon the situation as it stands today, no responsible German Government would call for the Special Advisory Committee or declare a transfer postponement unless it had already put its own affairs in order. The addresses of the German Chancellor and the Finance Minister to the Reichstag in recent weeks, demanding a definite reform of the public finances, are all to be read in this light, and no declaration of transfer postponement at this time is to be expected.

There is another factor of flexibility in the Young Plan, which, unlike a declaration of postponement, is not limited to emergency use. This is to be found in the facilities granted to the Bank for International Settlements. In the early stages of the Young Committee's discussions, it became obvious that since the foreign organizations were to withdraw from Germany, some form of institution should be created which would be capable of carrying on the non-political and purely financial work of receiving and distributing reparation funds. Furthermore it was clear that any arrangement for transfer postponement, if actually brought into play, was likely to aggravate the emergency which caused it to be invoked. Accordingly, the idea took form that a bank charged with the duty of receiving and distributing reparation funds should also be capable, within its technical limitations, of forestalling difficulties which might later get out of hand. It was around

this double purpose, one purely administrative and the other to give flexibility to the Plan, that the Bank for International Settlements was created.

But it was not designed merely as a reparations bank. Its functions, both in intent and practice, transcend the duties committed to it in connection with the management of reparation funds. The underlying purpose of the plan for the Bank and the intention of all those who participated at an early or late stage in determining its functions, was to create a banking institution of a hitherto untried sort, with powers broad enough to permit the bridging of existing gaps between separate national economies and with motives disinterested enough to allow action for the good of all concerned. Into these functions its duties with respect to reparations fit as a part and a constantly diminishing part of its total operations.

You are to hear in detail from succeeding speakers about the functions and operations of the Bank, both present and future. Here it is within my province merely to point to it as a feature of development in the Young Plan over the Dawes Plan. I can indeed give the essence of the conditions precedent to the settlement in no more concise form than to say that the experiences of the years 1924-1928 crystallized in the belief, first, that the whole internal function of reparation payment and transfer must be left exclusively in the hands of Germany; and, second, that the external work of receipt and distribution should become the nucleus for the creation of an institution so freely endowed with powers and so independent of political control that it would become a force for the smooth working of international financial relations in general.

THE BANK FOR INTERNATIONAL SETTLEMENTS AS THE FOCAL POINT OF THE SETTLEMENT

JACKSON E. REYNOLDS

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Organization Committee of the Bank for International Settlements

THE Committee of Experts who devised the "New Plan" themselves characterize the Bank after the manner of our title when they say: "There is only one new organization which is going to centralize all the various functions concerning the execution of the New Plan, viz. the Bank for International Settlements."

The broad rôle envisaged for the Bank is likewise illustrated in their statement of their attitude toward the problem before them. They say:

we have attempted . . . to set up an institution whose direction from the start shall be cooperative and international in character, whose members shall engage themselves to banish the atmosphere of the war, to obliterate its animosities, its partisanships, its tendencious phrases, and to work together for a common end in a spirit of mutual interest and goodwill.

A quantitative analysis of the New Plan itself also affords an excellent demonstration of the extent to which the Bank pervades the whole settlement. The Plan and its Annexes would make an octavo volume of about ninety printed pages of ordinary type. About a quarter of this volume would be devoted to miscellaneous odds and ends, the necessary introductory description of the genesis of the committee, the method of its selection, the terms of its mandate, the roster of its members, and an outline of its meetings and procedure, followed by a concluding summary comparing the Dawes Plan with the New Plan. Less than a quarter of such a volume would be devoted to the discussion of the considerations leading up to the determination of the amount and composition of the annuities, a tabulation of the annual installments and their distribution among the creditor Powers. More than half of the volume would be taken up by the matter concerning the Bank for International Settlements.

We need not pause to consider the extended provisions respecting the creation of a Committee on Organization of the Bank, the detailed outline of the mechanism of the institution or the description of its international status, its powers and limitations.

Manifestly our chief preoccupation is to take the Bank as the going concern it is today and observe how completely the execution of the terms of the settlement is entrusted to this newly created financial institution. All the functions involved in administering the Plan of the Experts will be found to fall into one or more of the following four categories, viz. :

1. The collection of the annuities from the debtor and the distribution among the creditor Powers.
2. The management of the disbursements on account of deliveries in kind during the ten years of their contemplated continuance.
3. The commercialization and mobilization of that portion of the annuities not subject to postponement.
4. The measures of safeguard provided in connection with the postponement of the postponable part of the annuities.

We may now consider these four categories in the order in which we have set them down.

1. The collection of the annuities from the debtor and the distribution among the creditor Powers.

At the outset the New Plan scrapped the political machinery of the Dawes Plan such as the administration of the Agent General, the various commissioners in Berlin, and the Reparation Commission. For these it substituted the authority of a non-political, external, financial mechanism—the Bank for International Settlements—to act as a Trustee, to whom Germany is to make the payments, and by whom the distribution to the appropriate recipients is to be managed.

These trustee functions of the Bank are described in detail in the Plan, and a Trust Agreement embodying the reciprocal relations between the Bank and the Governments was prepared by the Committee on Organization of the Bank, was adopted by the Governments as a part of the second Hague Protocol of January 20, 1930, and was subsequently executed and put into effect by the Bank and the Governments concerned.

Under this arrangement the Bank receives and disburses to the paying agents the service on the German External Loan of 1924.

It also receives from Germany the certificates and obligations provided for in the Plan. There are two of these. First, the certificate of the German Railway Company acknowledging its liability to pay for thirty-seven years a direct tax to an annual amount of 660 million reichsmarks, being equal to the annual amount of the non-postponable annuity. Second, a certificate of indebtedness of the German Government representative of the fifty-nine annuities provided for in the Plan. To this certificate of indebtedness are attached coupons representative of each annuity. Each annuity coupon is divided into two parts: the first representative of that portion of the annuity not subject to postponement; the second representative of that portion of the annuity which is subject to postponement. The Bank as Trustee assumes the custody of these certificates and undertakes to collect the coupons as they mature.

The provisions respecting the distribution of these collections among the creditor Powers are numerous and complex, involving all the usual details of accounts, receipts, reports, etc., etc.; but it would not seem profitable to recount all these ramifications in a summary such as this. Anyone specially interested in such details will find them in the Plan, particularly Parts VII and VIII of Annex I and in the Trust Agreement, Articles III, IV, V and VI.

2. The management of the disbursements on account of deliveries in kind during the ten years of their contemplated continuance.

The Committee of Experts recognized the fact that deliveries in kind had come to play so important a rôle in the economic life of Germany that their immediate cessation would not be in the interest of either side and would impose difficulties upon the export trade of Germany which might be injurious to her capacity to transfer. Admitting that the unlimited continuation of the system was inadvisable, however, the New Plan provided for a limited and decreasing use of this expedient. The payments on this account are fixed at 750 million reichsmarks for the first year and decrease each year thereafter at the rate of 50 million reichsmarks per annum until the tenth year, after which they cease.

Deliveries in kind involve commodities and services produced by the German economic system and supplied to a Power which is a creditor of Germany, the payment in respect of such commodities and services being effected wholly or in part by means of funds reserved for this purpose in execution of the New Plan. The management of deliveries in kind includes two separate functions, namely, the approval of contracts respecting such deliveries and the management of the payments to be made under the contracts thus approved. Under the second Hague Protocol of January 20, 1930, the Governments concerned retain full responsibility for the first of these functions and entrust the management of the funds reserved for deliveries in kind to the Bank for International Settlements.

The Governments transmit to the Bank all contracts which have been duly approved, together with the names and signatures of the officials authorized to issue orders to pay. The Bank keeps all the accounts, collects the monies, keeps the necessary statistics, and in general exercises all supervision in respect to payments. The Trust Agreement executed by the Governments and the Bank conforms to the Protocol in these respects and fixes the function of the Bank accordingly.

3. *The commercialization and mobilization of that portion of the annuities not subject to postponement.*

The Committee of Experts, having provided for the creation of the Bank in order to remove the reparation obligation from the political to the financial sphere, desired to assimilate that obligation as nearly as possible to an ordinary commercial obligation—that is, commercialization. They also recognized the desire on the part of certain of the creditor Governments to raise money by the issue to the public of bonds representing the capitalization of the unconditional portion of the annuity—that is, mobilization. It was manifest to the Committee of Experts that it was then impossible to foresee the time at which, or the terms and conditions upon which, such issues could be made advantageously. The consideration of all these and many other details involved in commercialization and mobilization was therefore committed to the province of the Bank as one of its most important functions.

The agency functions of the Bank in this field were outlined in the suggested scheme for its organization. A framework

within which such operations should be conducted was advised. The reciprocal relations between the Bank and the creditor Powers are fully defined in the agreement they have executed.

These several documents provide in complete and detailed terms as to the form of obligation to be delivered by Germany, the steps to be taken preceding an issue of bonds, the guaranties direct and collateral, positive and negative to be exacted, the general form of the bonds, the status of both the mobilizable and the non-mobilizable portions of the annuity coupons, and the activities of the Bank in the supervision of the execution of the agreements, the distribution of the collections, the emission of the bonds, etc., etc.

4. Postponement of transfer.

One of the most vexatious subjects of discussion preliminary to the agreement on the New Plan was the division of the annuity into the two categories of non-postponable and postponable. As respects the latter it was manifest that the Committee of Experts could not foresee the conditions of special economic difficulty and distress which might warrant postponement at various times during the ensuing fifty-nine years. It was to solve this perplexing problem that they recognized the desirability of an advisory committee which could consider such conditions when they should arise and take any necessary action in connection with the declaration of a postponement on the postponable part of the annuity. The need of some permanent central authority to appraise, from time to time, the necessity of convening such an advisory committee and actually convening it suggested to the Committee of Experts the expedient of constituting the Bank for International Settlements as that central authority and making the contemplated advisory committee a constituent part of the Bank.

As a result of conditions necessitating postponement it was evident that obligations under the New Plan might be discharged in reichsmarks within Germany. This would necessitate a financial authority to arrange for the employment of such funds or assets in the interest of the creditor Powers by arrangement with the Reichsbank. Moreover in so far as the task of transferring the payments into foreign currencies might involve a dislocation of international trade, it suggested

possible exchange and credit operations which might not be attempted through the ordinary existing agencies. These several considerations led the Committee of Experts to entrust these various functions to the Bank for International Settlements.

The mechanism of this safeguard accords the German Government the right, on giving ninety days' notice, to postpone transfers for a period not exceeding two years, in order to protect it against the possible consequence of a period of depression which might put such a severe strain on the exchanges as would make the process of transfer abroad dangerous. The conditions under which this right may be invoked, and the manner in which it may be exercised are set out in detail in one of the Annexes to the Plan.

Upon the declaration of any postponement the Bank for International Settlements is to convene the Special Advisory Committee which consists of seven ordinary members and four co-opted members. The ordinary members are nominated, one by each of the Governors of the central banks of Belgium, France, Germany, Great Britain, Italy and Japan, and one by the American financial institution representing the American *tranche* of the stock of the Bank for International Settlements. After these have been summoned they may, if they desire, co-opt not more than four additional members in order to have represented special aspects of finance, exchange, industry, etc., involved in the particular situation. It is then the duty of the committee to investigate Germany's position and report to the Bank their opinion as to the measures to be taken. The committee act in a purely consultative capacity and their findings have no effective force unless and until confirmed and accepted by the Bank.

In addition to the postponement of *transfer* the Plan contemplates that if such a postponement has been in effect for one year the German Government shall have the right to postpone *payment* for one year of fifty per cent of any sum the transfer of which shall then be susceptible of postponement.

These postponements will involve the accumulation of reichsmarks to the account of the Bank for International Settlements at the Reichsbank and the employment of these accumulated balances is entrusted to the Bank.

Correlative duties evolving from the foregoing.

An important correlative duty devolves upon the Bank as a result of the exercise of the third function above (i.e. the mobilization) in connection with the possible exercise of the fourth function (i.e. postponement of transfer).

The experts of the principal creditor Governments agreed that there should be assigned to France out of the unconditional annuity 500,000,000 reichsmarks in order to allow her to mobilize a substantial part of her share in the total annuity. France has already exercised this privilege in part by a preliminary mobilization loan.

In order to equalize any short payments to other creditor Powers which would arise from any postponement of the postponable portion of the annuity, it has been agreed that France should deposit a special Guarantee Fund with the Bank for International Settlements. The Plan defines the conditions under which this deposit shall be made and provides the formula for determining its amount. In the event of transfer postponement, the Bank is to administer this Guarantee Fund so as to insure to each of the creditor Powers, other than France, receipts equal to the amounts they would have received had the non-postponable annuity been distributed in the same proportions as the total annuity. Following the interruption of transfer, as and when Germany effectively transfers the postponed amounts, the Bank restores the Guarantee Fund from such payments.

The preceding discussion illustrates the manner in which, and the extent to which, all the various functions concerning the execution of the New Plan have been focused in the Bank for International Settlements. In addition the authors of the Plan contemplated the institution as one which should be insulated from all political influences, and whose direction should be coöperative and international, the purpose being to dispel the atmosphere of the war and to banish its animosities.

These objects seem to be assured by the expedient of distributing fifty-six per cent of the stock of the Bank in equal parts among the seven nations interested in reparations, reserving the remainder for distribution among nations having no interest in this question. The Board of Directors and staff of officers are likewise made up of representatives of finance

and industry of different nations, preserving a preponderance for those concerned in reparations but contemplating representatives of nations not so concerned.

Thus the administration of the settlement for the future seems to have been taken completely out of the hands of the politicians and entrusted to business men. Even as to these there is to be an infusion of some from countries detached from the reparation problem and thus likely to contribute cool and dispassionate judgment on all questions coming before the Bank, its officers, stockholders and directors. Let us hope that the Bank for International Settlements, thus constituted, may realize the dreams of its founders and foster peace and goodwill among the nations it is designed to serve.

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THE FIRST SIX MONTHS OF THE BANK FOR INTERNATIONAL SETTLEMENTS

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THE Bank for International Settlements opened its doors on May 20, 1930. Consequently I cannot respond fully to the title assigned to my remarks, because the Bank is not yet a round six months old. In addition, it is extremely difficult to give a description of the Bank's activities, for the reason that its daily business, like that of any other bank, is of a private nature. The most that I can do without abusing the confidence shown us by those depositors who have already entrusted to the Bank over \$300,000,000 for utilization in the facilitation of the international movement of capital and in the making of international settlements, is to trace in broad outline the organization of the Bank, the leading operations which it has conducted, and some of the policies which it has followed in the discharge of its task. Before presenting this summary, I may be permitted to pause a moment on the designation of the institution, to see whether the last half-year has justified the name.

The Bank for International Settlements is in the first instance a *bank*, non-political in character, organized and operated on a purely financial and commercial basis like any properly managed banking institution. Governments have no connection with it or with its administration. Created by central banks, its Board of Directors, made up of the Governors of central banks, private bankers, and business industrialists, is the sole authority which fixes its policy. The Statutes expressly provide that no person may be a Director who is also a government official. If political considerations were to govern the Bank, its usefulness would be impaired—in fact, one might say ended. There is no indication that governmental interference with a central bank has ever been anything but injurious, and what is true of one central bank

is the more true of this new entity which constitutes an association of central banks.

In the second place, the Bank is a banking institution of a special character, namely, *international*. It is established and equipped to assist in the international flow of capital and the development of new facilities for international financial operations. It is international because its shares have been placed by or through central banks or banking groups of twenty-one nationalities, because it already operates in twenty of the world's currencies which are on a gold or gold exchange standard, because its conservative short-term investments are in markets as remote as Tokio and Rome, Prague and Helsingfors, and because on its staff at Basle there are persons of ten nationalities. In the daily workings of the Bank, where four languages are employed in correspondence, the entire spirit is one of international understanding and collaboration, arising from an appreciation of the fact that capital is fluid and overflows mere national or geographical divisions.

Finally, the name of the Bank includes the word "settlements". This implies that one of the essential objects of the institution, which differentiates it from the usual bank, is assisting in the simplification of international settlements of account between one country and another and one currency and another. Such settlements include not merely the adjustment of payments between states, but the larger machinery of the settlement of other international obligations, such as the service of international loans floated in several markets of the world, and the payments from one national economy to another of the net balances daily arising out of commercial and financial transactions. Because of a central organization, which has never before existed, these international settlements can be simplified and effected with a reduction of the disturbance to the exchanges. This aspect of the Bank's functions is still in embryo, but enough has been done in the first six months to make the institution a veritable bank, international in character and object, working in aid of settlements between creditors and debtors in different parts of the world, facilitating the flow of funds from one market to another, and ameliorating the organization of international credit.

After this preamble, I would like to sketch the Bank's organization, principal activities, and policies.

I

ORGANIZATION

The B. I. S.—to employ the accepted abbreviation—could not begin to function until the Young Plan had been ratified by the requisite number of parliaments. The Young Plan in turn could not operate until the Bank existed. Inasmuch as the parliaments moved with their accustomed slowness, it was decided to hold an advance informal meeting at Basle on April 22nd of the persons who had been nominated to be Directors. In the absence of Mr. Jackson Reynolds, Chairman of the Committee which elaborated the Bank's Statutes, Sir Charles Addis, Vice-Chairman, presented various documents relating to the legal details of organization. Then followed the election of officers, consisting of President and Chairman, his Alternate, two Vice-Chairmen, a General Manager, and an Assistant General Manager. The following plan of organization was authorized:

The structure of the Bank consists of three Divisions: Banking; Relations with Central Banks; Secretariat General.

The Banking Division has two Departments, one for operations in foreign exchange, and the other for the receipt of deposits and the making of investments. This Department, because of the widespread nature of our banking activities, has three Sections: one dealing with those markets where the English language is employed, the second with those markets where the German language is employed, and the last with those which customarily employ French.

The Division for Relations with Central Banks is directly under the General Manager. It includes a Department for maintaining contact with central banks, a Department for centralizing information, for organizing research in monetary problems, and for conducting the meetings of special committees consisting of representatives of central banks which are sent to Basle from time to time for the specific study of a problem, such, for example, as the workings of the gold exchange standard.

The Secretariat General deals with administrative matters and includes the important General Accounting Section.

At the informal meeting, the President was also authorized

to open the Bank for business upon the official coming into force of the Young Plan. This decision and others were confirmed at the first regular meeting of the Board of May 12th. The Young Plan was not even yet in legal effect, but late Saturday, May 17th, the final preliminary formalities were completed by the governmental agencies, whereupon S. Parker Gilbert, Agent General for Reparation Payments, remitted to the Bank his balances in the equivalent of about \$45,000,000. We had prepared to receive them, although we did not commence our general business or receive payments from stock subscriptions until May 20th.

II

ISSUE OF STOCK

The authorized capital of the Bank is 500 million Swiss gold francs, divided into 200,000 shares. The subscription of the total capital having been guaranteed in equal parts by the central banks of Belgium, England, France, Germany, Italy, a banking group acting in place of the Bank of Japan, and a group composed of Messrs. J. P. Morgan & Co., of New York, the First National Bank of New York and the First National Bank of Chicago, the Bank was empowered to do business as soon as 112,000 shares had been subscribed. Twenty-five per cent only of the value of each share was to be paid up at the time of subscription, the balance to be called by the Board upon three months' notice.

At the first meeting of the Directors an invitation was extended to the central banks of Sweden, Switzerland and Holland to subscribe to the capital stock, and each subscribed 4,000 shares. At the meeting on June 16th, an invitation was extended to the central banks of Austria, Bulgaria, Czechoslovakia, Danzig, Denmark, Finland, Greece, Hungary, Poland and Rumania, and each of these subscribed 4,000 shares. On October 12th the Board accepted a subscription of the central bank of Esthonia for 100 shares. There are 164,100 shares at present outstanding, for which the equivalent of 102,562,500 Swiss gold francs have been paid. You will observe how widely the stock was placed outside of countries having an interest in the payment or receipt of inter-state indebtedness. The proceeds of the subscriptions—received in

the currencies of the subscribers—were invested in the respective markets of the subscribers. Over 35,000 shares are being withheld for offer to central banks in other countries of the world where the currencies meet the Bank's requirement of being on a gold or a gold exchange standard. In this connection, it is well to remember that the B. I. S. is not a European bank. Japan and the United States have nationals on its Board, and there is ample provision in the Statutes for representatives of the banking systems of other countries. In fact, there are still nine vacancies on the Board, whose maximum number is twenty-five.

Applications for shares from the central banks of Portugal and Yugoslavia were declined until those countries had stabilized their currencies. In the improvement of the international flow of capital, one element is a stabilized currency. If money is to circulate more freely, capital must have confidence in the possibility of safe return from one currency to another. Hence one of our functions is to promote stabilization programs, including the granting of supplementary credits to render them effective. Yugoslavia and Portugal have been advised that we stand ready to assist, and our services have been placed at the disposal of the central bank of Spain, with which we are in contact in connection with the peseta.

III

INITIAL ACTIVITIES

The first activities of the B. I. S. related to the functions contemplated for it by the Hague Agreements of January 1930. The Bank announced that it would serve as the recipient of the German annuity payments, executed the Trust Agreement with the various creditor Powers which provides for the distribution of these payments, and declared its readiness to execute similar agreements relating to the payments to be made by Hungary, Bulgaria and Czechoslovakia. It received from the German Government the certificate of debt which specifies the annual amounts payable by Germany. In pursuance thereto, Germany is paying and the Bank is receiving on the 15th day of each month one-twelfth of the annual instalment, i. e., at present the equivalent of about 36.5 million dollars a month. These sums are received in such

currencies as the Bank calls for. A substantial portion of each monthly instalment is received in reichsmarks, which the Bank uses to finance deliveries of commodities exported from Germany to the nationals of the various creditor powers. Sums received in foreign currencies are paid to the interested governments through their central banks or in some instances redeposited with us.

While in the popular mind the Bank's activity in connection with the German debt payments is regarded as its principal operation, and while it was a prime reason for the Bank's creation, the truth is that this duty has already become the smaller side of the work. The administration of these monthly sums is a routine operation which could be carried on by any trust company. Consequently nearly the whole thought and energy of the Bank is devoted to other fields mentioned below. Reparation funds proper represented on our last balance sheet under twenty per cent of our total assets. Similarly, it is a mistake to consider that the institution is merely one for handling German payments and the so-called inter-Allied debts. While creditor Treasuries may use us like any other bank as a depository for funds which may or may not be ultimately employed to discharge public debts as well as private debts, there is no provision in the Young Plan or in the Hague Agreements by which the Bank collects from the principal debtor on the one hand and remits directly to the principal creditor on the other.

IV

THE GERMAN LOAN

An essential feature of the Young Plan was the provision that a certain portion of the annuities payable by Germany could be mobilized and offered to the public. The Hague Agreement fixed as the amount of the issue the net equivalent of approximately \$300,000,000. Two-thirds was to go to the creditor Governments entitled to payments from Germany, and one-third to the German Government itself for the needs of the German Post Office and German Railways.

Well before the Bank was opened, it was manifest that it could not make headway in the field of developing central bank coöperation or studying methods of facilitating the inter-

national movement of capital until this loan had been realized. Early action was the more necessary because it was clear that the preliminary preparation would involve long and complicated negotiations.

It is to be remembered that we were dealing with one of the largest international issues ever made: that the issue was to be offered in nine different currencies in nine different markets with different laws, languages and usages; and that the desires and interests not only of many different banking groups but of seven Government Treasuries, and of Germany, the obligor, all had to be harmonized. The arduous discussions terminated in mid-June, when the loan was made in the nominal amount of approximately \$350,000,000. The largest proportion was placed in France; the second largest sum was placed in the United States, namely 28 per cent of the aggregate; and the remainder was allocated to the markets of Great Britain, Sweden, Switzerland, Holland, Belgium, Italy and Germany. The Bank, which acted as Agent of the creditor Powers and of Germany in negotiating the issue, was appointed the Trustee for the Bondholders, and now serves in that capacity.

The proceeds of the loan were placed by the issuing bankers at the disposition of the B. I. S., which credited or paid them to the several beneficiary Governments via their respective central banks. The service of the loan is the direct and unconditional obligation of the German Government, and all payments required by the General Bond have been and are being punctually and faithfully made.

The Bank also acts as the Fiscal Agent of the Trustees for the German External Loan of 1924, commonly referred to as the "Dawes Loan", and receives and disburses the payments requisite for its service. In July it accepted the Trusteeship of the Austrian Government Seven Per Cent Loan of 1930. By its Statutes it is authorized to act as the Trustee for international loans of sovereign states, and it has been approached by various Governments on the question of acting as Trustee for future loans.

V

BANKING DEVELOPMENT AND POLICY

The growth of the Banking Department of the institution has been rapid. The balance sheet at May 31st showed assets of approximately 300 million Swiss francs. The statement of October 31st disclosed assets of slightly less than 1,800 million Swiss francs. This advance has been primarily due to the coöperation of central banks, many of which deposit a portion of their foreign currency reserves with us. Such reserves represent one-third of our assets and liabilities. Approximately another third relates to deposits of central banks for the account of their Treasuries, and the remaining third represents our paid-in capital and permanent deposits entrusted to us pursuant to the Hague Agreement. No deposits have so far been accepted from private banking institutions or individuals.

The monthly statements of the Bank are made in a single money of account, the Swiss franc taken at mint parity. Much curiosity has been shown as to the geographical distribution of our funds and the amounts held in various currencies or moved from one currency to another. We do not consider it appropriate to publish such details, among other reasons because one of the functions of the Bank is to assist the exchanges in times of anticipated stress or temporary need, and it would hardly be helpful to advertise a situation we were endeavoring to correct by disclosing the changing directions which our funds take. Similarly, we do not publish the interest rate we pay for deposits, lest it be mistaken as something in the nature of a world discount rate, and alterations in our terms given a significance they do not have. I may say, however, that at present we are allowing one average rate for all currencies on the gold or gold exchange standard.

The receipt of substantial deposits raises questions of investment policy. While I cannot reveal our investments in detail, there are certain policies which can be stated.

First, it is not the aim of the Bank to attain large profits. Mindful of our objective as a regulator of the exchanges, as a reserve center and international clearing house for central banks, and as a factor in the improvement of international

credit and the circulation of capital, in our investments we subordinate the profit-making aim to a consideration of their effect on central bank policy, the foreign exchanges and the improvement of world credit.

While the Bank is still too young to have fixed policies in the sense that they are settled for all time, and while the very nature of the Bank demands that it must be flexible and adapt itself to changing conditions, the following principles have been guiding:

(A) The maintenance of great liquidity. This is requisite because a considerable portion of our funds—and we hope a growing one—constitutes the foreign exchange reserves of central banks. Such reserves must be quickly forthcoming in emergencies. Besides, to serve as a stabilizer of the exchanges, the Bank must be ready to move funds rapidly from one point to another. Consequently, though a third of our funds are placed with us for over thirty-seven years, only ten per cent are invested for over six months and nothing over two years, sight to three months being our preference. In "sight" I include commercial bills and Treasury bills which are rediscountable at any moment on demand. Such investments as we have running over three months are all readily realizable.

(B) We have endeavored to relate investments directly to the promotion of trade and commerce, national or international. We do not finance Governments, and our Statutes expressly prohibit advances to Governments.

(C) With due regard to our commitments in a given currency and to liquidity, we have endeavored to move capital from markets where it is superabundant to markets where it is needed. Thus we have made investments in Germany, and during the difficulties which ensued some weeks ago, the B. I. S. purchased more reichsmarks and increased its investments there.

(D) We move capital from markets of low interest rates to markets of high interest rates, in order to help the trend toward a leveling-out of rates and to assist commerce and agriculture in those centers where the interest rate is excessive. Thus, with proper security, we have made advances in certain Eastern countries.

(E) We have moved our funds in ways aiming to be helpful to currencies which are temporarily or seasonally weak. In different parts of the world there are certain seasonal demands for financing, and these demands customarily involve a strain on the currency. Hence, by advancing short-term funds in these periods to the local central banks, we accomplish the double object of relieving the exchange strain and of putting capital where it is needed.

(F) Finally, we make investments with a view to organizing credit facilities in monetary centers where necessary instruments of credit are lacking. If a given center has not, let us say, developed the helpful agency of a bill market, we state that we are ready to make a local investment if such a market is organized, whereupon we invest in bills. The value of this operation is that it attracts other funds into the countries in question, thus increasing the volume of credit at the disposal of the national economy.

Our investments, made on the foregoing principles, have in all instances been made through or with the consent of the central bank in the country concerned. Our task being to work for the better organization of international credit, we conform our policy on each market to the desires of the responsible central bank. This procedure strengthens the hands of the local central bank and gives it the opportunity to exercise the right to veto any operation of the B. I. S. in its market, which is provided for by the Bank's statutes. So far this veto right has never been exercised. On the contrary, a spirit of great helpfulness has been shown. In certain markets we have the central bank as our sole agent, transacting all operations for us and granting us the benefit of its guarantee. In others we have relations with private banks, but only through the intermediary of the central bank, which negotiates for us with the private banks concerned. Finally, in some markets we work directly with private banks, where the central bank is not prepared to act for us but has no objection to our operating with private banks, provided the central bank is fully apprised of every operation undertaken.

In connection with facilitating transfers of funds from one currency to another, we have been able to conclude certain rediscount agreements with the banks of issue of the various

countries. Their object is to procure us the currency of those banks in return for the rediscounting by them of some of our foreign exchange holdings. This means that if we suddenly require a given currency, instead of purchasing it in the open market, which might put pressure on the exchanges, we are able to transfer a portion of our portfolio of foreign bills to the central bank in question, which opens us a corresponding credit in its own currency. Here we have the first germ of the creation of a foreign exchange international clearing fund.

VI

COLLABORATION OF CENTRAL BANKS

If I were asked what I considered the outstanding activity of the last six months I would say the collaboration of the central banks. It may be that with time the B. I. S. will become the great center for central bank reserves as well as a common clearing house. Until the very recent past, central banks have tended to work in isolation and in ignorance of what each was about to do. Because of the delicate unity of the international credit structure such isolation is injurious and often results in the unintentional neutralization by one central bank of the salutary efforts of another.

One essential utility of the B. I. S. is the opportunity it gives for central banks to discuss together their common problems. This opportunity results from the monthly meetings of our Board attended by the Governors of central banks, from the repeated visits of central bank officials to Basle, and from the return visits of the Bank's officers. In addition there is maintained a practically continuous series of meetings of experts to study problems of common concern. While this work is among the most confidential of our tasks, I believe you will be interested to know of two major studies which are now in course.

An examination is being made of the possibilities of the organization of a system of international clearing through the B. I. S., so that central banks may have facilities for clearing international movements of capital, just as in the United States we have facilities for the clearing of internal movements of capital. At present these studies concentrate on the possibility of establishing an international clearing through a foreign

exchange settlement fund which will be administered by the B. I. S. Our Statutes provide, however, not only for such operations in foreign exchange but also for the creation of an adjustment fund for movements in gold. A study of this possibility is also under way, and the B. I. S. may receive gold deposits in future, agreeing to transfer them from the account of one central bank to that of another. In this way we should avoid a recurrence of incidents like those witnessed in recent years, when gold crossed the Atlantic from London to New York at the same time that gold was transported from New York to Paris.

You will at once perceive that the organization of foreign exchange and gold settlement funds has its relation to the whole problem of gold, to which the Bank is not oblivious.

It is admittedly difficult to estimate the direction of our future growth. One conclusion is clear: that is the increasing interest in the institution, as evidenced by the number of visits from leading bankers and economists from all parts of the world. Basle is becoming an international center for the practical study and discussion of the world's monetary and credit problems. We believe that the field of the Bank's operations is broad and will be developed not merely for the sake of development but because of the actual needs which have made themselves manifest. Experience has already disclosed that great use can be made by the respective national banks of issue of an international bank, non-political in character and management.

But I should like to strike a note of warning. Do not expect too much! Do not expect even a modicum too quickly! We must make haste slowly. No miracle can be performed by the infant Bank which will forthwith cure the world's economic ills, though some of our journalistic friends speak as if we could work miracles if we but would. Patient experience will disclose the best manner of our rendering service. What the Bank may most usefully do lies in the invisible future, but the fact that it is a framework in which patient experience may proceed and progress, and has already progressed, is one of the saving features in a tense world situation.

THE INTERNATIONAL BANK TWENTY YEARS HENCE

WALTER W. STEWART

Chairman of the Board, Case, Pomeroy & Co.;
formerly Economic Adviser to the Bank of England

A PROPOSAL to discuss the International Bank twenty years hence, at a time when it has only completed the first six months of its operation and when the future is filled with uncertainties, appears to require hazardous guessing about the unknown. Yet, in the life of an institution, two decades cover a relatively brief period and in the early years of an institution so important as the Bank for International Settlements, it is worth while trying to foresee the influences which may shape its development. I shall not undertake to anticipate what the International Bank may be in the year 1950, but rather to forecast the direction of its growth. This may be done if we are prepared to make certain assumptions concerning the nature and scope of its activities.

In considering the long-time future, we must, at the beginning, make at least one assumption about the International Bank. We must assume its longevity. The International Bank will continue to live because it is a sound and simple method of dealing with a difficult problem—a problem so complicated, in fact, that nothing but a simple solution could be successful. Though it is a novel financial institution with unique responsibilities, the Bank has a well-established basis, since its organization includes certain existing and already tested institutions—the various central banks. Some of these central banks have already lived for more than two centuries and though they have not always been free from criticism, they still command confidence. Furthermore, the problems arising out of international settlements are not merely current problems but, in one or another phase, are permanent. In working out their solution, I believe the central banks will find this new agency indispensable. These are my reasons for predicting that the International Bank will have a long though not necessarily a happy life.

Among the activities which will help to determine the character of the International Bank are certain simple and essential functions relating to the receipt and distribution of the German annuity payments. When the German Government has obtained in any month the necessary amounts of foreign currencies to make its annuity payments, the International Bank, as Trustee, receives and distributes those currencies according to an agreed schedule. It may appear that such routine business can hardly require the attention and advice of the Governors of central banks. It is quite logical, however, that the Governors of central banks should have responsibility for the management of these annuity funds. International transfer of these funds and their short-term investment in various international money markets affect matters which are the daily concern of central banks. The transfer of funds on any large scale over the exchanges influences the movement of exchange rates and may even result in gold shipments. Also, apart from their magnitude, these transfers differ in nature and character from ordinary commercial transactions. They do not arise out of the ordinary course of business and the resulting balances of foreign exchange belonging to various treasuries are not held for commercial purposes and may be transferred from one market to another for non-commercial reasons.

In each country Treasury balances of domestic currencies are usually concentrated at the central bank, which acts as fiscal agent for its Government in internal affairs, and it is equally appropriate and important that Treasury holdings of foreign balances should be concentrated at the International Bank, where the central banks, acting jointly, will be responsible for their management. The International Bank cannot open current accounts in the names of Governments or make advances to Governments, and in consequence of this sound rule, the various Treasuries have access to the current banking operations of the International Bank only through the central banks of their respective countries, acting as fiscal agents for them.

Sometime in the future, when these Treasury holdings of foreign balances have been reduced through retirement of external debts, I believe that a larger percentage of the re-

maintaining portion will be concentrated at the International Bank and administered by the Board of Governors.

The Board of the Bank, which now includes the representatives of central banks from both the debtor and the creditor countries, will in time include representatives of central banks from countries which have no direct interest in reparation payments, and the International Bank will then be one step farther removed from the circumstances which occasioned its establishment. This aspect of the new bank is in contrast with the arrangement under the Dawes Plan for the performance of similar functions.

However important and attractive other fields of activity may be, the first test of the International Bank will be the effectiveness of its operations in this somewhat limited field of the receipt, distribution and management of the annuity funds. The International Bank, first of all, must be a good trustee and a good banker. In the course of working together on these problems, the central banks will develop a machinery and a method for joint action in other directions.

To promote the coöperation of central banks is set down in the statutes as one of the objects of the International Bank. The Governments, by adequate fees for the trustee services of the International Bank and by making long-term deposits with it, have helped to finance central banking coöperation. The proper administration of reparation payments required the establishment of an international financial institution, free from political influence and representing both debtors and creditors. Except for that necessity and occasion, it is doubtful if central banking coöperation would have resulted in any formal organization for some years to come.

At the time the new bank was proposed, coöperation between central banks was still in its infancy, though it already had a definite record of accomplishments. Through coöperative credits, various countries had been assisted in their return to the gold standard. The practice among central banks of maintaining deposit accounts with one another, of earmarking gold, of investing foreign balances for each other, and of exchanging information had already developed. The International Bank can now perform for central banks those services which, through coöperation, central banks were prepared to render to

one another. The difference lies in the fact that there is now a common center of action and an organization in daily operation which is the outward and visible sign of central bank coöperation. Working with each other through the mechanism of the International Bank will alter the character of central banking coöperation by making it less personal and individual and more formal and organized. In the early years, coöperation was conducted primarily by means of personal visits of Governors, and while the International Bank is not a substitute for such visits, it makes coöperation less dependent upon the personal equation. Under the new arrangement, it will be possible to consolidate and regularize the progress already made and to extend the field of coöperative action as the opportunity arises.

At present there is need for a better coördination of policies with respect to central bank holdings of foreign exchange, and the International Bank may already have begun working on the problem. Total central bank balances of foreign exchange now aggregate between two and three billion dollars and are invested largely in the short-term money markets in New York and London. Foreign balances held by some of the central banks are greatly in excess of requirements and it is to be hoped that with a revival of confidence and of world trade, some portion of these funds will be made available through the capital markets by the resumption of foreign lending on the part of those countries now holding excessive balances. The present wide spread between the rate for short money and the price of long-term capital is partly explained by the concentration of these balances in short-term liquid investments. The activities of the International Bank may lead to improvements in the operation of the gold-exchange standard and to a reduction in the aggregate amount of short-term foreign balances carried by central banks.

An interesting experiment in the management of foreign balances of central banks could result from operations under the provision in the Bank's statutes that "it may enter into special agreements with central banks to facilitate the settlements of international transactions between them" and that for this purpose it may "open accounts through which central banks can transfer their assets from one currency to an-

other". If adequate facilities of this type could be developed, it would sometimes be of distinct advantage to a central bank to convert its holdings from one foreign currency into another without the necessity of going through the exchange market. These advantages may carry with them some dangers; but since the principles and rules governing such accounts are to be fixed by the Board, it is unlikely that such accounts will be developed on a scale or at a rate which would interfere with the normal functioning of the foreign exchange markets. Further provision that central banks may have gold earmarked for their account at the International Bank and transferable on their order may sometimes prove useful in avoiding physical shipments of gold between countries.

This matter of reducing the volume of gold shipments is quite distinct from the problem of economizing gold through reducing the aggregate demand for it and, therefore, ought not to be confused with questions concerning the stabilization of the value of gold. This latter question was not mentioned anywhere in the Report of the Experts' Committee, nor is any reference made to it in the Statutes of the Bank. My reason for mentioning it is that there seems to have been some confusion of thought and an expectation by some people that the International Bank could undertake to stabilize the level of prices through controlling the value of gold. Those who believe that the purchasing power of gold can be stabilized by central banking policies will probably urge upon the International Bank, as they have already urged upon central banks, the necessity for undertaking the task. I recognize that central banks, acting in concert through the International Bank, would be able to accomplish results beyond the power of any central bank acting alone; but the International Bank, like the central banks, works within the limitations of finance. Economic circumstances limit the powers of the Bank and an economic disequilibrium, which is reflected in a change of prices, cannot be corrected by financial means alone. Once a world economic equilibrium has been established, the full operation of the international gold standard, if its rules are observed, will help to maintain that balance. Since the war, however, there has been no genuine international equilibrium and any attempt to stabilize an unbalanced situation will prove

worse than futile. Since these limitations of finance are not fully recognized, it is probable that the International Bank will be urged to take responsibility for preventing fluctuations in the purchasing power of gold. In this event, I predict that the Bank will decline to accept responsibility in a field where it has a limited influence.

Another possible activity for the new bank was suggested in the report of the Young Committee which said, rather vaguely, that the Experts could "envisage the possibility of a financial institution that should be prepared to promote the increase of world trade by financing projects, particularly in undeveloped countries, which might otherwise not be attempted through the ordinary existing channels". No special provision, however, was made in the Statutes of the Bank for carrying out this suggestion. It must be realized that the only means available to the Bank for financing world trade projects are either its own capital, which is limited, or the deposits left with it by treasuries and central banks. The provision that the Bank shall be administered with particular regard to its liquidity, places further restrictions upon such a use of its funds.

One possible source of funds is the Bank's power to accept "such other deposits as in the opinion of the Board come within the scope of the Bank's functions". Possibly, special long-term deposits, contributed under an arrangement similar to a syndicate, might be accepted by the Bank for the specific purpose of some world-trade project, and the Bank itself might take a participation in such a syndicate. This depends upon the opinion of the Board as to the scope of the Bank's functions. Since the Board consists largely of the Governors of central banks, its attitude is likely to be conservative, cautious, conventional and disinclined to take large risks. Central banking does not develop the habit of risk-taking, since the daily operations of a central bank are limited almost exclusively to securities in which the element of risk is at a minimum.

While, therefore, I am not prepared to say that over a period of years no arrangement for promoting world trade could be elaborated in which the International Bank would play a part, it does seem to me unlikely that the Bank would

take the initiative. Such projects lie more in the field of promotion than in the field of trusteeship and central banking.

Another possible eventuality which must be considered when one looks into the future, is that occasion may arise which makes it necessary or desirable to postpone transfer or to revise the total of annuity payments. This possibility was foreseen by those who drew up the Plan and they provided a simple and effective machinery, outside the organization of the International Bank, which could be called into action if required. This machinery consists of a Special Advisory Committee to be appointed by the Governors of certain central banks, not by the International Bank itself, and the committee's functions are limited to investigation and recommendation. The responsibility of the International Bank is limited to convening the committee, upon the request of the German Government, and to receiving a copy of its report. This arrangement relieves the Bank from the responsibilities of either recommendation or action and leaves it free to play its proper rôle of trustee and banker. The proper performance of these functions requires that it shall be beyond the range of political controversy. The Bank, however, will study the economic effects of the transfers in their relation to world credit problems, international movements of capital, the functioning of the gold standard and changes in the world level of prices. Economic consequences will engage the attention of the Bank but not political controversies.

A further possible development which would influence the Bank would be a change in the character of American participation. From the standpoint of the Bank, the fact that the United States Government has made a separate agreement with Germany covering the receipt of its share in reparation payments, is not a matter of great importance.

The important phase of this question is the character of American banking participation in the administration of the Bank. Under the present arrangement, the Federal Reserve is not directly represented, the two American directors having been appointed by the alternative method of representation which was provided to meet the contingency that some central bank could not accept direct responsibility in the management of the Bank. The Federal Reserve, however, acts as agent

and correspondent for the Bank and is prepared to perform for it services similar to those it renders to central banks.

In view of the importance of the New York market, some form of American participation in management and some machinery for coöperative action with the International Bank is essential. It may be that the present arrangement, supplemented by occasional visits, will prove satisfactory and will be continued for an indefinite period. For my part, however, I hope the time will come when the Federal Reserve can have a direct participation in the management of the Bank. The International Bank was conceived as a coöperative undertaking of central banks and no matter how competent other American directors may be, the absence of the Federal Reserve leaves the organization of the Bank incomplete.

Direct participation by the Federal Reserve would contribute to the strength and effectiveness of the International Bank and would provide the Federal Reserve with a fuller opportunity to become familiar with international credit problems. This country became a creditor nation so abruptly that it has not yet acquired the experience and tradition necessary to act consistently and continuously as an international banker. The implications of our position as a creditor country will become increasingly apparent with the passing years and when public opinion has accepted these implications, the Federal Reserve may be expected to play its full rôle in the administration of the new bank.

In conclusion, let me say that I am quite aware that some of my forecasts may be fathered by a hope. Also, I would like to safeguard my various prophecies with the protecting clause that institutions have a way of outgrowing the conceptions of those who watched them during their infancy. They take on new functions as they grow, abandon old methods for new and better ways. Activities once important become mechanical and new problems are undertaken. In the end, the character of the International Bank will be determined by the vision of its leadership and by the spirit which dominates it. My conception of the place and function of the International Bank grows out of my conviction that in economic affairs "our stability is but balance and wisdom lies in the masterful administration of the unforeseen".

DISCUSSION: LIQUIDATING THE WAR

(An abstract of the discussion at the close of the First Session, following the addresses which are printed in Part I of this volume.)

MR. W. RANDOLPH BURGESS (Deputy Governor, Federal Reserve Bank of New York), *Presiding*: The discussion of the papers will be begun by Mr. George P. Auld. Mr. Auld was associated with Mr. Young in the early days of the Dawes Plan. He was one of the first who had the courage to lift his voice against the conventional theory of transfers, and since that time his voice has been well worth listening to on this question.

MR. GEORGE P. AULD (Accountant General of the Reparation Commission, 1920-1924; partner in Haskins and Sells): The cogent and illuminating addresses to which we have just listened, together with those promised for the later sessions, comprise the best and most authoritative public discussion of reparations that has ever taken place. The fact that such an event occurs in New York rather than abroad is evidence that international affairs are beginning to receive adequate consideration in this country. It is further significant that this meeting brings to a single platform not only leading figures who have been dealing responsibly in Europe with this group of problems, but also other personalities holding important places in the Federal Reserve system and the national Treasury. This healthy circumstance suggests that we are approaching a time when any intelligent American—official, semi-official or private—may freely admit that the United States has financial relations with Europe and may openly discuss questions of international finance on a realistic basis, without being charged with conspiracy against the peace and prosperity of his own country.

The purpose of our meeting is educational and I interpret my function in "opening the discussion" partly as one of suggesting that the speakers or other distinguished authorities here present might throw further light on certain points of particular interest and importance.

Taking first the Bank in its wider field of usefulness as a new centralizing unit in international finance, it would be interesting to hear something more on two tangible contributions which it is or may be able to make to a more effective application of the benefits of organized banking. I refer to its power to aid in the stabilization of depreciated currencies and to a certain aspect of its rediscounting

powers. One of the arguments advanced by a well known Swedish economist who saw no great value in the bank project was that its field of usefulness in the stabilization of currencies would be unimportant, as the post-war stabilizations had already in the main been accomplished. I suspect, but would be interested to hear the subject further developed, that the answer to this is that in fact several important stabilizations have already been participated in or taken under consideration by the Bank, and that for the future, until governments everywhere have forgotten how to use the printing press to balance budgets, the recurrence of such problems is not at all improbable.

As to the rediscounting function of the Bank, it has frequently been said, to the confusion of lay minds, that the Bank has no power to create credit. Some have urged this in its defense against a suggestion of dangers of inflation. For my part, if it were a fact, I should regard such a lack of power as a negation of one of the most important principles underlying the original conception of the Bank, namely, the international extension of existing elastic systems of credit. As I understand it, however, the capital provided for the Bank does form the basis for additional credit to the customers of such central banks as avail themselves of the rediscounting privilege and are able under their charters or national currency standards to count the deposits thus created with the B. I. S. as part of their reserves. This feature, though now apparently restricted in its application, presumably has potential importance for the future, offering a means of credit expansion to countries on a gold-exchange standard or to such countries on the gold standard as might give to deposits with the B. I. S. the status of gold reserves.

Turning to reparations, the possibility, if it is one at present, of Germany's declaring a postponement of transfer makes particularly timely the exposition given by Mr. Reynolds of the important functions of the Bank in such circumstances. His hearers would, I am sure, like to know in more detail what a postponement would mean to the various creditors, with particular reference to the operation of the guarantee fund provided by France, to which he briefly referred.

Possibly few in this room would hazard a definite prediction as to the broader effects on the world situation which would flow from a declaration of postponement of the postponable part of the annuity. The gravity of the consequences would presumably be in inverse proportion to the validity of the case presented by Germany in justification of her action. Mr. Morgan's statement that a postponement is at present unlikely is a reassuring one. Nevertheless, the recent agitation in Germany gives considerable timeliness and

potential importance to the question as to what exigencies, if any, now existing, or likely to exist, might reasonably justify a postponement of transfer.

My own view has always been that as an economic concept, the transfer problem is a figment of the imagination. In order to bring it under the microscope, three extraneous factors, basically political in their character, must be segregated out of it—first, the contingency that the money will not be raised by taxation, second, the contingency of concerted operations in bad faith against the German exchange and, third, the contingency of general political developments so unfavorable as to cause a new “flight from the mark”. Assuming these contingencies not to be imminent, as I would now assume, or that they were adequately dealt with by political means if arising, there is, in my view, little left of the problem of transferring payments but the ordinary or seasonal increases in value of the foreign exchanges, which can be and are in practice effectively dealt with by the raising of the discount rate of the Reichsbank.

The broader question of another downward revision of reparations, which has recently received attention in the news dispatches from Germany, I do not offer here as a suggested topic for discussion on its merits. My reasons are, first, that the subject is much too formidable to be dealt with in a few minutes, and, second, that it appears at present to be no more than academic. It is only a few months since the terrific labors of the Young Committee and the Hague conferees came to an end and a great international treaty was brought into being. It is impossible for me to believe that any responsible statesman of the world, Germany included, would be willing so soon to face a repetition of that struggle or could regard a boiling-up of that controversy at this time as anything but extremely harmful to all concerned.

QUESTION: Mr. McGarrah said four languages are used in the Bank. He named three. What was the fourth language?

MR. MCGARRAH: French, German, English and Italian.

MISS ANNA YOUNGMAN: Mr. Morgan spoke of the untrammelled right of Germany to declare a postponement of transfer of payments. Suppose thereafter the Advisory Committee convenes and determines that Germany is not justified in postponing transfer, what then?

MR. MORGAN: The substance of the question is whether action by the Advisory Committee, determining that Germany is not justified

in postponing transfer, infringes Germany's untrammelled right of postponement.

The Advisory Committee, I may say by way of answer, is, as its name implies, an advisory committee. Its decisions are not binding upon the creditor countries or upon Germany. It can express its opinion in much the same way as the Dawes Committee or the Young Committee expressed an opinion. It is then within the province of the governments concerned to determine whether the action of the Advisory Committee is to be accepted or not.

There is always the chance of a deadlock when one gets around a table the representatives of numerous governments. There are still greater chances of deadlock when the ministers of the various governments get together to put into effect the decisions of an advisory committee. We have seen how difficult it was in the case of the Young Plan.

The answer in substance is that the Advisory Committee is only advisory, and decisions must be taken by the governments themselves.

MR. LEONARD A. LAWSON: Supposing political developments in Europe compelled a revision of the peace treaties to the point of cancellation of reparation payments, would the Bank still continue to function?

MR. MCGARRAH: I think that question ought to be referred to Mr. Stewart, whose topic was "Twenty Years Hence."

MR. STEWART: The person responsible for drawing up the Statutes of the Bank, I think, is a safer source of information.

MR. REYNOLDS: That sounds to me like a very excellent question, and I don't know just what the answer is to be. I don't know whether I am to answer as a lawyer or as a soothsayer.

The legal situation would seem to me to be fairly clear. The treaty or protocol of January 20, 1930 covered a multitude of subjects. Amongst others, it contemplated the creation of this Bank, and because of its complexity, the creation of the Bank resulted in a kind of side treaty between Switzerland—which was not a party to the other arrangements—and the creditor Powers and Germany, under which Switzerland created the Bank, under charter granted by its legislature and undertook to make it perpetual. As a result of that treaty, a bank was created which will continue indefinitely. If the job of reparations peters out, the Bank is still there under the charter of Switzerland to continue the remaining functions, which are considerable now and will increase in the future.

MR. STANISLAW BELZECKI: Will Mr. Reynolds discuss in detail the technique of the commercialization of the debt?

MR. REYNOLDS: That phrase, the technique of the commercialization of the debt, has two implications. The first can be outlined very simply. All that phrase means, simply interpreted, is that a very vague obligation to pay which was recognized in the Treaty of Versailles and not defined at all, and then was recognized in the Dawes Plan by certain definitions of nearby payments but left completely in the air as to the termination of those payments, has been commercialized in the sense that it has been made a commercial debt by providing that one series of payments should run for thirty-seven years and another series for fifty-nine years, and by defining the amounts that are to be paid in each of those years. That converts an indefinite, foggy, nebulous, uncommercial admission of obligation into a commercial obligation of a definite amount due on a definite day. In the narrow sense, that is commercialization, and that is what the Plan has accomplished. The specific form lies in the certificates of indebtedness which are delivered to the Bank in precisely the same manner as you would give your promissory note, with two kinds of coupons attached to them, one for the postponable annuity and the other for the non-postponable. These commercial documents commercialize the transaction.

MR. L. E. BARBER: Is it possible for a central bank to have on deposit with the B. I. S. other currency than Swiss francs?

MR. MCGARRAH: Certainly, all other currency of countries whose currency is stabilized.

MR. BARBER: Do you give any guarantee to the central bank for the payment of the currency?

MR. MCGARRAH: There are some questions, as I said at the start, that are rather delicate. I prefer not to answer that.

MR. BARBER: What determines the rate of exchange?

MR. MCGARRAH: The market determines the rate of exchange—supply and demand.

MISS YOUNGMAN: I should like to ask one other question about the Advisory Committee. If its report would have no influence, wouldn't Germany in practice, before making public her determination to

postpone transfer, assure herself that there would be no interference with such a decision? In other words, isn't it true that probably the negotiations would be concluded in advance for all practical purposes, that is, if the Advisory Committee is unable to interfere with the plans when they are announced?

MR. MORGAN: There would be no meeting until the German Government had asked for it, either in connection with declaring a postponement or independently of such declaration.

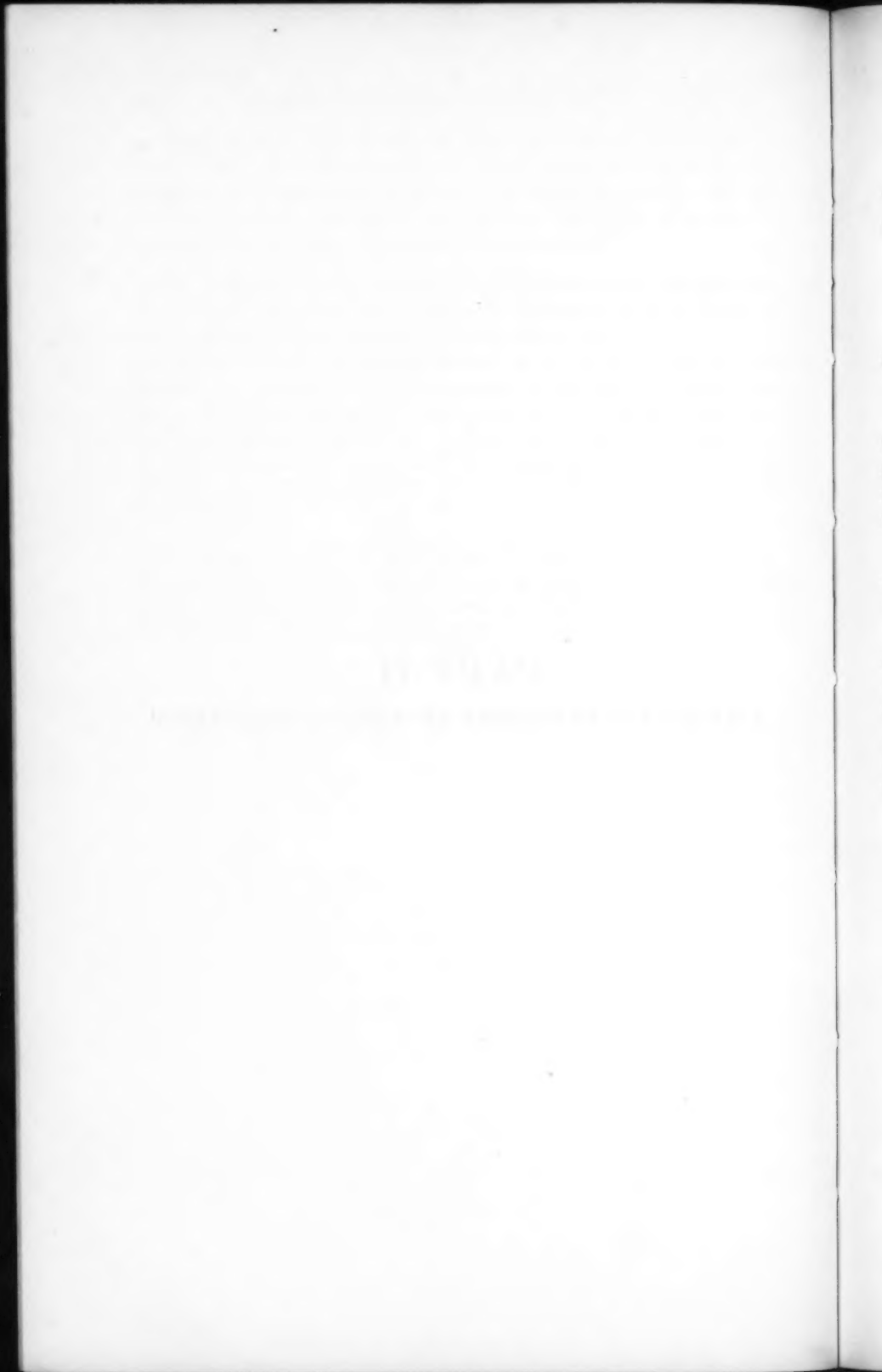
I should say this, in explicit answer to an earlier phase of your question—a declaration of postponement is competent only for two years, so that at the end of two years it would be necessary for Germany to resume payments. I think that that answers the time factor. Moreover, to sound out the committee prior to calling it formally into session seems to me to be rather problematical and very difficult.

MR. BURGESS: If there are no further questions, I have the very pleasant duty, on your behalf, of thanking those who have spoken to us this morning. It has been an unusual occasion with an authoritative and very interesting set of papers. We are most grateful.

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PART II

AMERICA'S INTEREST IN THE SETTLEMENT



INTRODUCTORY REMARKS ¹

ALANSON B. HOUGHTON

President of the Academy of Political Science; former United States
Ambassador to Germany and to Great Britain

THIS morning we listened to an admirable discussion of some of the larger aspects of that great process which we call the liquidation of the war. Special emphasis, of course, was focused on a new piece of financial machinery set up by the Young Plan, to wit, the Bank for International Settlements—why it was created, what it has done, and what it is hoped it may do.

This afternoon we turn directly to America's interest in the settlement now confronting us. I need hardly say that this is a subject of transcendent importance to us and to others.

The first speaker needs no introduction. Mr. Mills has been a trustee of the Academy for many years. He is, as you know, the Undersecretary of the Treasury, where he has rendered the country distinguished service; and inasmuch as the separate agreement with Germany which he purposes to discuss was, I believe, negotiated by the Treasury Department, no one is better fitted to tell us about it.

¹ At the opening of the Afternoon Session, over which Mr. Houghton presided.

AMERICA'S SEPARATE AGREEMENT WITH GERMANY

HON. OGDEN L. MILLS

Undersecretary of the Treasury

ON June 23, 1930, the United States and Germany executed an agreement providing for the settlement of the claims of the United States and its citizens against the German Government. The agreement may be briefly summarized as follows:

It provides that Germany is to pay 40,800,000 reichsmarks for the period September 1, 1929, to March 31, 1930, and the sum of 40,800,000 reichsmarks per annum from April 1, 1930, to March 31, 1981, in satisfaction of mixed claims, and beginning September 1, 1929, an average annuity of 25,300,000 reichsmarks for thirty-seven years in full liquidation of our Army Costs. The combined annuities equal the annuity allocated to the United States under the terms of the Young Plan. Germany at its option, upon not less than ninety days' advance notice, may postpone any payment on account of the principal falling due to any subsequent September 30th and March 31st not more than $2\frac{1}{2}$ years distant from its due date, a provision that accords, generally speaking, with provisions relating to postponement to be found in our other debt settlements. All postponed payments on account of mixed claims are to bear interest at five per cent, the rate provided for in the Settlement of War Claims Act of 1928, and all payments postponed on account of Army Costs are to bear interest at the rate of $3\frac{5}{8}$ per cent. While the annuities are stated in terms of reichsmarks, payments are to be made in dollars, either at the Treasury or at the Federal Reserve Bank of New York.

If we would understand the reasons which led up to the making of a separate agreement with Germany, it is necessary to consider the situation of the United States as compared with that of the other creditor Powers. At the time the Young Plan came into existence, the claims of the United States against Germany fell into two limited classes: first, those cov-

ering the reimbursement of our Government for the costs of our Army of Occupation; and, secondly, those relating to the compensation of our citizens for damages sustained from acts of war, as adjudicated by a joint tribunal set up by agreement with Germany, and popularly known as "mixed claims." On the other hand, our Government had recognized two classes of claims by German citizens against it, the first comprising the return in cash or in kind of property of private persons seized by the Alien Property Custodian; and the second covering compensation for ships, radios and patents seized by the United States Government for its own use.

The history of the Army Costs and Mixed Claims items as is follows:

Army Costs

The total costs of the United States Army of Occupation amounted to \$292,663,435.79. Except for cash requisitions on the German Government for the use of the Army of Occupation aggregating \$37,509,605.97 and certain other items, such as provost fines, abandoned enemy war material, etc., amounting to \$7,288,184.33, the United States Government received no payments on account of Army Costs up to May 25, 1923. On that date the United States and the principal Allied Powers signed the so-called Wadsworth Agreement, which provided that our Army Costs should be divided into twelve annual instalments, and should be, during the first four of the twelve years, a first charge on cash payments received from Germany after the expenses of the Reparation Commission and the current expenses of the Allied Armies of Occupation, but during the last eight years should be an absolute prior charge on all cash payments, except for the costs of the Reparation Commission. Ratifications of the Wadsworth Agreement were never exchanged but we received a payment under it of \$14,725,154.40 in January, 1925. This agreement was superseded by the so-called Paris Agreement of January 14, 1925, which also covered awards of the Mixed Claims Commission. This latter agreement was concluded at a meeting of representatives of the creditor Powers, including the United States, called for the purpose of making distribution of the annuities provided for under the terms of the Dawes Plan,

which had been adopted in 1924. Under the provisions of the Paris Agreement, the United States was to receive on account of its Army Costs, beginning September 1, 1926, the sum of 55,000,000 gold marks, or about \$13,100,000 per annum, which payments were to constitute a first charge on cash made available for transfer by the Transfer Committee out of the Dawes annuities after the provision of the sums necessary for the service of the 800,000,000 gold mark German External Loan of 1924 and for the costs of the Reparation and other Commissions. Under the provisions of the Wadsworth Agreement, our Army Costs should have been liquidated by the end of 1935. Under the Paris Agreement, the payments would extend over a period of about eighteen years, beginning September 1, 1926.

Up to the first of September, 1929, the United States had received on Army Costs Account, \$39,203,725.89 under the Paris Agreement.

As of September 1, 1929, there was still due on account of Army Costs \$193,936,765.20.

Mixed Claims

By virtue of an agreement entered into on August 10, 1922, by the United States and Germany, there was set up a Mixed Claims Commission, charged with the duty of passing upon the claims of American citizens arising since July 31, 1914, in respect of damage to or seizure of their property, rights and interests, and upon any other claims for loss or damage to which the United States or its nationals had been subject with respect to injuries to persons or to property, rights and interests since July 31, 1914, as a consequence of the war, and including debts owing to American citizens by the German Government or by German nationals.

The first meeting of the Commission was held on October 9, 1922. Up to August 31, 1929, awards had been certified to the Treasury for payment which, with interest to August 31, 1929, aggregated \$172,703,083.71. It was estimated as of August 31, 1929, that the principal amount of awards yet to be entered and certified, together with interest to that date, amounted to \$53,000,000, and in addition awards to the United States Government, with interest to August 31, 1929,

amounted to \$64,934,794.41. In other words, as of August 31, 1929, it was estimated that the total awards of the Mixed Claims Commission, made and to be made, aggregated with interest \$290,637,878.12.

No provision for the payment of the awards of the Mixed Claims Commission was made until the Paris Agreement of January 14, 1925. The Paris Agreement provided that the United States should receive $2\frac{1}{4}$ per cent of all receipts from Germany on account of the Dawes annuities available for distribution as reparations, provided that the annuity resulting from this percentage should not in any year exceed the sum of 45,000,000 gold marks. Up to September 1, 1929, the United States had received from Germany under the Paris Agreement for account of mixed claims \$31,831,472.03, which, with earnings and profits on investments amounting to \$2,149,692.70, made available for distribution \$33,981,164.73, and left \$256,656,713.39 still to be provided for. It must be understood in this connection that the figures relating to the total amount finally awarded by the Mixed Claims Commission were necessarily only an estimate, since all of the awards had not as yet been made.

Turning, now, to Germany's claims against the United States, our Government, in common with other nations engaged in the Great War, had sequestered or seized for its own use the property of German citizens. Once the war was over, it could have elected, as others did, to retain that property and apply it to the satisfaction of its own claims and those of its citizens, leaving the German owners to seek compensation from their own Government. Had the United States followed this course in the first instance, it seems probable that at the time of the adoption of the Young Plan we would have been completely out of the picture, and there would have been no occasion for either a joint or a separate agreement.

However, in accordance with a time-honored tradition and what we conceived to be sound public policy, we elected either to return the property or to compensate the owners, the payments to extend over a number of years, the total period for final liquidation corresponding in a general way to that required to discharge the obligations of our own citizens. This is a noteworthy fact, for it results in the transfer of important

sums to Germany during the period of payment to us. And what is even more significant, in the earlier years dollar payments to Germany will exceed mark payments to the United States. During the first three years of the life of the separate agreement, we shall receive some 198,000,000 reichsmarks, or about \$47,000,000; whereas we will place at the disposal of German citizens—I can give you but approximate figures—about \$148,000,000 in cash or property. This, as I understand it, is not true of other creditor countries.

Moreover, it must be remembered that, in accordance with the policy established by President Wilson, who as early as 1919 had said¹ that in his opinion we should claim nothing under the general reparation clauses, we had never presented a claim for general reparations; we had not participated in the fixing of the sums to be paid by Germany or in the apportioning of those sums among the creditor Powers; we had never joined others in the collection of payments, and we had never been represented on the Reparation Commission, which, after all, came into existence to deal with an almost strictly European problem.

It appears, then, that at the time the question arose as to whether we should become parties to the Young Plan, or rely on a separate agreement with Germany, the position of the United States differed in several important particulars from that of the other principal creditors: First, our claims were of a limited character and, compared with the total reparation bill, were comparatively small. We shall receive less than three per cent of the total Young payments. Secondly, by reason of our policy of non-confiscation and compensation of German citizens, mark payments to the United States will be offset to some extent throughout the period of payment, and in the earlier years more than offset by dollar payments to Germany, which obviously facilitates bilateral transfers. And, thirdly, we had never joined our war associates in the assessment, collection and distribution of general reparation payments.

The adoption of the Young Plan, by our becoming a party to

¹ 19 August, 1919, Conference at White House with members of Senate Committee on Foreign Relations. *Sen. Doc. No. 106*, 66th Cong., 1st Sess., p. 505.

the Hague Conventions, would have involved official approval on our part, not only of the total reparation bill presented to Germany, a question in which we had no primary interest, but of the fairness of the distribution of the amounts to be paid as between European creditors, as to which we had no knowledge and no interest whatsoever. In addition, we should have had to assume in the future a share of the responsibility of collecting and distributing payments, for we could not have accepted the benefits afforded by the Young Plan machinery and have declined to bear any part of the burdens.

Clearly, our interests were not sufficiently important to justify our plunging headlong into this troublesome European problem and reversing the policy laid down by President Wilson, and followed since his day, particularly since, had we participated, it is probable that should any difficulties arise in the future we, as a comparatively disinterested party, should find ourselves in the position of arbiter, called upon to settle and decide a controversial and difficult European question.

But there is another controlling reason which made it inadvisable and inconsistent for us to accept and become a party to the Young Plan. The Plan apparently seeks to link and merge reparation payments by Germany with allied debt payments to the United States. Here again President Wilson, on the very first occasion that this attempt was made, took the position that the settlement and payment of the obligations to us, incurred by our associates, were entirely independent and unrelated to the reparation claims made against Germany. He said, the United States Government

fails to perceive the logic in a suggestion in effect either that the United States shall pay part of Germany's reparation obligation or that it shall make a gratuity to the allied governments to induce them to fix such obligation at an amount within Germany's capacity to pay. This Government has endeavored heretofore in a most friendly spirit to make it clear that it cannot consent to connect the reparation question with that of inter-governmental indebtedness.¹

That policy has been consistently adhered to by our Government.

¹ Letter dated 11 October, 1920 from President Wilson to Lloyd George. *Sen. Doc. No. 86*, 67th Cong., 2nd Sess.

In short, when the question arose as to whether we should make a separate agreement with Germany for the satisfaction of our relatively modest claims, or decide to pool them with the infinitely larger claims of the European creditors, all of the arguments appeared to be in favor of the first course. It was simple, direct, entirely adequate to protect American interests, and in accordance with established policy; whereas the alternative involved not only abandonment of the attitude steadfastly maintained toward both war debts and reparation problems, but the assumption of responsibilities on our part wholly disproportionate to the magnitude of our claims and relating to problems almost strictly European in character. While, therefore, we were quite ready to accept the annuities allocated to us by the Young Plan, which involved some sacrifice on our part, it seems to me that we should not have been justified in becoming participants, and that we followed a wise and proper course in providing for the satisfaction of our claims against Germany in a separate agreement.

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EFFECTS OF THE YOUNG PLAN SETTLEMENT ON AMERICAN TRADE AND FOREIGN INVESTMENTS

JOSEPH E. STERRETT

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1924-1927; Partner in Price, Waterhouse & Co.

THE effects of the Young Plan upon American trade and foreign investments cannot be weighed and measured with the precision that might be attained if the Plan were operating under stable conditions. It was launched in the midst of a financial storm that is still running high. Not only is the Plan subjected to stress and strain from a world-wide depression but it is beset by political repercussions that add to the perplexities of those charged with responsibility for the administration of the Plan. To some extent the political troubles result, no doubt, from the economic difficulties with which the countries of Europe, along with the rest of the world, are confronted; but to a larger degree their roots are entwined in other and more noxious soil.

It is difficult for Americans, even for those fairly familiar with Europe, to realize the extent and potency of the enmities and distrusts that the present generation of Europeans have inherited from the centuries of warfare and spoliation through which their countries have passed. These mental attitudes may, and often do, seem foolish, but they are nevertheless harmful. Throughout the central European countries men are nursing grievances. Not all the same grievances,—far from it! But the present economic depression is reason enough to bring these discontented ones into a common focus, as into a cave of Adullam. There is nothing new in all this. Similar groups have been together before but they have always broken up into petty factions. These discontented ones are vocal but are seldom cohesive.

It is an unfortunate fact that the peoples of Europe do not fully grasp the benefits that might come to them from a more cordial coöperation. There they sit, crowded together without elbow room and forever getting on each other's nerves.

They cannot get away and make a fresh start; they must bear with one another as best they may. This condition is of long standing, but the growth of population tends to crowd them more and more. Furthermore, in recent years they have developed engines of destruction that will annihilate them unless they learn to live together in reason. However, strong influences are at work for better relations and there is good reason to hope that the Stresemanns and the Briands are at once the true interpreters of the mind of the peoples and the leaders that will make that mind effective.

Bearing in our thought the possibility of political disaffection in Europe, we can visualize the adverse effect upon America of a breakdown of the Young Plan. True enough, the impact of such a calamity would be felt primarily in Europe and only secondarily in America. Even so, it would be to us a disaster of the first magnitude and the mere suggestion of a possibility of a complete breakdown of the Young Plan is startling. As Americans we ought to give our support in every practical way to the sane, constructive leaders, political and economic, who are struggling toward the light in all European countries. In particular, we ought to show our confidence in them and discountenance the selfish and unpatriotic trouble-makers who are articulate in every country.

The possibility of a breakdown of the Young Plan is mentioned in no alarmist spirit. One of the best evidences of the practicability of the Plan is that it contains provisions to the effect that, in the event of a period of special economic difficulty and distress, rendering Germany unable to meet her current obligations under the Plan without a disturbance of her exchange, a committee of economic experts shall be convened and after a careful study of the situation they shall report their recommendations to the Governments and to the Bank for International Settlements. The difficulties that the Dawes Plan had to face were of a psychological nature as much as, or more than anything else, and for the most part the difficulties which everybody at the outset foresaw, or thought they foresaw, failed to materialize. It is fair to assume that the Young Plan will have a somewhat similar experience. The Plan will encounter many and very real difficulties, but the fact that some of them are now foreseen will in itself go a long way toward

avoiding their consummation. It is, however, reassuring to know that difficult economic problems which may be, but more probably are not now, foreseen, will be studied whenever necessary by economic authorities whose recommendations will be almost mandatory.

What has been said indicates in some measure the background against which the Young Plan must operate. What the effects of that Plan upon American trade and foreign investments will be will depend largely upon the measure of the success of the Plan as a whole. Merely to give some indication of the importance to Americans of the foreign trade of the United States with the European countries directly affected by the Young Plan, that is, Germany, France, Great Britain, Belgium and Italy, a resort to statistics may be permitted to the extent of noting that for the last available year, 1929, the figures given by the Department of Commerce show that the merchandise exports by the United States to these countries amounted to \$1,793,000,000, or 34 per cent of our total merchandise exports. By way of comparison, the corresponding figures of imports amounted to \$948,000,000, or 21½ per cent of our total imports. For the remainder of European countries the exports amounted to \$548,000,000 and the imports to \$385,000,000, and thus for the whole of Europe the percentage of our merchandise exports amounted to 44½ per cent of our total merchandise exports, while the imports amounted to 30 per cent of our total merchandise imports.

From these figures one or two thoughts may be derived. One is that this trade is highly important to the United States. We have, it is true, a marvelous internal market, but to maintain a state of reasonable prosperity, that market must be supplemented by foreign markets, and nowhere in the world do we have so broad a market as in Europe. Another thought, in accord with a well known axiom, is that he who would sell must also buy.

It will be observed that on merchandise account we buy from Europe less than sixty per cent of the amount that we now sell to European countries. To the merchandise figures we must, of course, add on the respective sides of the account the invisible exports and imports, and these factors have an important bearing on the whole problem. It is probably true that, with

the exceptions of investment income and one other item which will be discussed later, the invisible exports and imports are not likely in total to vary greatly in the immediate future, although, having regard to their distribution among the European countries, there may well be substantial changes. Tourist travel, for instance, is likely to go in increasing volume to Germany, Austria and other central European countries. On the export side it is rather in the merchandise transactions to which we must look for future gains. But here American exporters are confronted at once by increasing customs barriers that meander all over the map of Europe. The Young Plan, has, of course, no direct relation to tariff policies but indirectly it may contribute to the growing sense of solidarity among European countries and thus hasten the day when the European countries will reduce their tariff barriers as between themselves. Only by so doing can they develop in anything like an adequate degree their own internal markets.

It is interesting to speculate what would be the effect upon American trade if the internal tariff barriers that now exist in Europe were modified or removed. It may be assumed that in such a case a general European tariff wall would still have to be scaled by American exporters, but it is reasonable to believe that the position of American trade would still be improved. For one thing, exporters would have to familiarize themselves with a much smaller number of tariff laws, and American exporters would have a broader market in which to make their sales. Generally, it will be agreed that in foreign trade, as in domestic, the things that increase friction and restrict the freest possible interchange of goods and the passage of persons must swell the cost of the goods and depress the standard of living.

Certain individuals have an aptitude for a given line of activity. In a similar way nations are more capable of accomplishing certain tasks than they are of others. When one thinks of watches, Switzerland comes to mind at once. The people of the United States have a genius for the production of many kinds of goods, of which, from an export standpoint, the automobile is an outstanding example. We have accomplished much in the simplification of construction and standardization of manufacturing design, and we have learned

something about salesmanship in foreign countries. These things with their further development will place America in a fair position to seek world trade. Here again, if we are to succeed in the field of exports, we must obey the dictates of an enlightened self-interest and purchase goods which other countries are better equipped to produce than we are. It is shortsighted and economically wasteful for us to persist in producing at a high cost goods which in the nature of things other peoples can produce more cheaply. Our tariff policy in this respect is not only expensive directly to us as individuals but it is also highly irritating to many of our best foreign customers.

An anticipatory reference has already been made to one factor in our foreign trade which has already assumed considerable importance and which is certain to increase. The German people are a highly educated nation, skilled in research and well endowed with inventive ability. Even before the war their achievements in what may be termed the business sciences were notable. Never in history has such a people been put under an economic pressure comparable to that which the Versailles Treaty has placed upon Germany. The reparation debt which hung over them as a huge but indefinite burden has now been made definitive by the Young Plan. They have accepted the hard truth that they must do all that lies within them to discharge this debt and to that task they are summoning all of their scientific knowledge, all their inventive skill, and their vast capacity to apply the results of that knowledge and skill to organized human effort.

Important, even fundamental, changes in the major industries of the United States are taking place through the adoption of methods, processes and devices that are coming to us from Germany. Already a steadily enlarging stream of royalties is flowing from this and other industrial countries into Germany. These facts have impressed business men in this country and it is rather surprising that so very little has been said in public about them. This is not the time or place to go into particulars, but these developments have an importance to everyone interested in the study of the effects of the reparation settlement. It would be ironical if, as a result of the pressure of reparation, the Germans in the course of time

were to recover their reparation payments through the collection of royalties from their former enemies.

The effect of the Young Plan upon the foreign investments of America, and for the present discussion foreign investments mean European investments, ought to be stimulative. The existing world depression sufficiently accounts for the present lack of activity in this field. It is scarcely to be expected that even a rapid financial recovery would bring about a repetition of what happened immediately following the inauguration of the Dawes Plan. At that time the currencies of all of the allied countries were deranged and that of Germany had just been stabilized. As a result of the inflation in Germany the supply of liquid capital had been dissipated, and in order to start the wheels of business it was necessary that foreign loans should be forthcoming at once.

To those of us favored with a position on the side-lines the advent of American loans into Germany was an interesting spectacle. Almost at once Berlin was flooded with what came to be known as "dollar" salesmen. Some of these were experienced bankers who did not deserve this title. Many of them, however, were amateurs in international finance. It was a day of miracles. Only a year before such terms as "the flight from the mark" were part of the common language. But by the end of 1924 the mark was highly esteemed and, be it said parenthetically, it was worthy of the esteem and the confidence that was displayed toward it by American investors who, in turn, contributed substantially to that worthiness.

Fortunately, most of the loans placed by American banking houses in Germany were sound from the standpoint of the lenders. The banking houses reaped a profit and although several years have now passed American investors have had occasion to make but few complaints. Now, however, conditions in respect to investments in Germany are bound to be different. German industry is in a measure upon its feet; the need for foreign loans is less imperative; the currencies of the other European countries have been stabilized and their money markets are now open. Competition in the placing of commercial loans will, therefore, be keener and a higher quality of judgment will be required of American bankers if the good record of German loans is to be maintained in this

country. Moreover, in the field of municipal and state borrowing greater restrictions are now being imposed by the Federal Government and the former volume of such loans will probably not return.

For the time being the flow of fixed credits from America to European countries has nearly stopped but this can be only a temporary cessation. Credit is a fluid body and given reasonably stable conditions it must go wherever profitable employment offers. Germany is the chief debtor country of the world but it is also a country of workers and producers. German industry, however, must have more capital. It can afford to pay a good return upon capital and, in addition to tangible security, it can offer a highly developed state of commercial honor and honesty.

Therefore, it seems inevitable, unless the world is to stand still or go backward, that with clearing skies a stream of American capital will again set in toward Germany. In passing, it may be pertinent to suggest that some part of this stream might advantageously take the form of investments in the capital stocks of German corporations. Hitherto there has been a reluctance on the part of German business men to part with shares in the ownership of their business enterprises and there has not been time as yet to develop in the United States a wide demand for shares in foreign corporations. Both bonds and stocks have their proper place in the sphere of corporate finance and in investment portfolios. Where a German corporation meets the requisite conditions its capital stock, as well as its bonds, might well assume more of an international character.

If and when German security issues again are floated upon the American markets, we shall no doubt hear the old story that Germany is paying her reparation debt out of the money borrowed from America. At mathematics such a proposition may be unanswerable, but does that prove anything? American bankers have not been lending funds to Germany to enable her to pay reparation. They have accepted securities of sound business concerns and have sold these securities to American investors not at all because the act was a kindly one toward the German Government but because in their judgment as bankers these investments offered adequate security and an attrac-

tive return. If, incidentally, such a transaction should prove to be helpful in connection with the payment of reparation, so much the better; it would tend to make the bonds even stronger. Why has no one suggested that American importers when bringing German goods into our markets were in reality deceiving us into paying German reparation?

The reparation problem has been from the beginning inadequately understood. It is not strange that this should be so because there has been no comparable precedent. The public mind in all of the beneficiary countries had to be educated and this had to be done in the face of adverse interests. It has taken years to drive home to the voters of all countries the fact that the destruction caused by the Great War was too vast for it to be possible for any one country to make good the damage. People may differ in regard to the moral and legal aspects of the problem, but the world has been faced by an economic actuality. The Dawes Plan was intended to be, and has proved to have been, a temporary working arrangement which took into account the economics of the European situation, and it brought a reasonable degree of order. The Young Plan is a further and more complete step in the liquidation of reparation. Whether it is the final step, we must leave to the healing and revealing processes of time.

In the ordinary affairs of men and of nations we can have some knowledge of what will probably happen. The reparation problem has never consented to occupy the position of an ordinary affair, and, as is the case with most major problems, the indirect effects of the attempts to solve the reparation problem are likely to be far-reaching.

The really important factors bound up in the settlement are psychological. First of all is the willingness to pay on the part of the debtor. There is sufficient evidence to convince us that the reparation debt cannot be collected by legal process which, in the last analysis, means the use of force. Another factor is the recognition on the part of the creditor peoples that the success of the Young Plan involves their active coöperation. This principle was inherent in the Dawes Plan and is clearly recognized in the Young Plan. Indeed, it is so economically obvious that it would not need to be stated were it not that people are apt to think of the reparation debt in terms

of debt relations as they exist between individuals. A third psychological requisite is a belief on the part of investors in all countries that the willingness of the debtor to pay and of the creditors to coöperate rests upon solid foundations.

Thus the Young Plan is based upon faith. And faith is a part of the tradition of modern trade and finance, and nowhere more so than in our own country. Business men know that the points of likeness between Europeans and Americans are much more important than their points of difference. But in international trade and commerce, faith, to be effective, must be enlightened. The world is fast becoming a single economic unit but we do not yet know much about what that means. It will require years of intensive study and research to rechart this new economic world. In the meantime business must be served. With some of the old landmarks gone and new conditions to be met, some of which will arise out of the Young Plan, American business is faced with a challenge to splendid adventure in the years just ahead.

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AMERICA'S ROLE IN THE INTERNATIONAL ECONOMIC SITUATION

JAMES W. ANGELL

Associate Professor of Economics, Columbia University

WHEN the work of the Young Plan committee was completed, a year and a half ago, most people undoubtedly believed that a new era of international economic stability and prosperity had been inaugurated. It was thought that the payment of reparations, and with them the payment of the Inter-Ally debts, had at last been placed on a definite and workable basis; and it was hoped that the resulting expansion of world trade would make the real weight of both sets of transfers progressively lighter. Expectation and fulfilment have to date, unfortunately, proved quite different. Within a few months of the termination of the Paris conferences, the movement of the world's business turned definitely downward; and we are now in the grip of one of the most widespread depressions of the present century. At the same time, and as a direct consequence, the burden of the various intergovernmental payments has become greater rather than less; and the workability of the existing arrangements themselves has once more been called into question.

It therefore requires no demonstration that the world's international financial situation today is one of very real pressure and strain. What is less clearly recognized in this country, however, is the fact that the situation cannot be explained solely in terms of reparations payments and the current business depression. Yet even the most summary consideration of recent history shows that the world has been laboring under a persistent international strain for many years; and that the character of the strain will remain substantially unchanged even after the present acute depression of world business has disappeared. The main source of this strain has been the one-sided international-payments situation created by the World War, and by its aftermath of European reconstruction.

In the payments situation, in turn, the dominant factor has been the new international position of the United States. Even at the risk of repeating facts already familiar, it is therefore worth while to point out the main features of our present position, and to call attention to the serious problems which confront us.

Sixteen years ago, at the outbreak of the war, Europe was the world's great lender, and we were still a debtor nation. We had a considerable number of investments abroad, it is true, but their size was much smaller than the total of our obligations to foreigners.¹ We also had a large volume of foreign trade, but we still thought of our exports as being primarily an outlet for our surplus domestic output, especially agricultural produce. Most of us were quite uninterested in the semi-mythical region called "abroad", and foreign affairs played but little part in our activities and our calculations. Then came the war. We suddenly found ourselves the only large available source of needed commodities and capital, and we began making enormous loans to the Allies for military purposes. The end of the war brought no stop to the process, for additional sums were required for reconstruction; and then in recent years, as a more normal peace-time life was resumed, we were called on for large investments in Europe to make good the severe shortage of business and other capital which the war had left. Nor was even this the whole story. Before the war other regions of the world, especially Latin America and parts of the Far East, had been dependent on Europe for much of their new capital and many of their manufactured commodities. With Europe now crippled and unable to meet even its own needs, these regions turned inevitably to us, and thus we further enlarged our interests and holdings.

The results for us of these vast and relatively rapid changes have been many. The most conspicuous is our emergence as much the largest lender in the world. The total of our foreign investments and other claims on foreign countries is now between 22 and 23 billion dollars; and even after subtracting foreign claims on us, our net credit is nearly 15 billions.²

¹ Our net indebtedness in 1914 was about three billion dollars.

² The following figures present our estimated international position on January 1, 1930, in billion dollars:

This enormous volume of lending and other investment abroad has frequently made us a dominant factor in the movements of international banking, and has also given us a certain measure of control over the economic development of other countries. A further corollary has been our large and quite undesired accumulation of gold, sent us by other nations to repay earlier loans and advances. In consequence, at one time we held nearly half of the world's entire stock of monetary gold. Finally, and in intimate relation to our expanding investments abroad, our foreign trade has grown to unprecedented proportions, and has penetrated to every corner of the globe. We are now on a footing of equality here even with Great Britain, the traditional mistress of trade and the seas.

But this new position of international wealth and power, which we have achieved mainly by sending a portion of our national assets abroad, has proved far from an unmixed blessing. Moreover, it has clearly been responsible for a large part of the enduring strain which has characterized the world's international financial situation in recent years. The essence of the matter can be stated in a few words. Our private citizens have made investments and other advances abroad of about 16½ billion dollars. In addition, our Government has made loans to foreign Governments having a so-called "present value" of nearly 6 billions. The return flow of interest and profits from these two groups of claims now

	<i>Credit</i>	<i>Debit</i>	<i>Balance</i>
1. Private long term investment	15.0	4.7	+10.3
2. Private short term capital placements ..	1.5	3.1	— 1.6
3. War debts at "present value"	5.9	—	+ 5.9
4. Claims on Germany at "present value" ..	0.3	—	+ 0.3
	<hr/>	<hr/>	<hr/>
Totals	22.7	7.8	+14.9

The data are taken chiefly from "The Balance of International Payments of the United States in 1929" (*Trade Information Bulletin*, no. 698). The war debts are entered at their "present value" at the dates of the several debt-funding agreements, this value being calculated at 5% compound interest. The original nominal principal of the debts was 10.2 billion dollars.

Our private foreign investment today is still smaller than was that of England in 1914, which amounted to 18.4 billion dollars. This last figure is equivalent, at present price levels, to about 23 billions. (See H. Feis, *Europe: The World's Banker*, New Haven, 1930, p. 23.)

amounts to nearly 12 hundred million dollars a year gross, which is a sizable income. But—and here is the paradoxical difficulty—we have been far from anxious, as a nation, to receive this income, and have even taken active steps to prevent its receipt! To see why this has been so, consider the ways in which foreigners can actually pay over the sums annually falling due to us.

First, they can ship gold. But all the monetary gold in the world would suffice for only a few years of such payments; and in addition, we are now strenuously endeavoring to prevent further large gold imports.

Second, they can ship goods. We have recently responded to that heretical suggestion by putting up what is in its effects the highest tariff in our history, and one of the highest in the world. At the same time we are striving to push our exports into every conceivable foreign market. The fact that there is a possible serious conflict, between export expansion and the receipt of income from foreign investments on the one hand, and high tariffs on the other, does not yet seem to have bothered our tariff-makers.

Third, the foreigners can sell us their services,—freights, tourists' accommodations, and so on. This they actually do, and on a large scale. But our net purchases of foreign services, in recent years, have been hardly more than big enough to offset our own surpluses of commodity exports, and the service item therefore offers no immediate solution.

Finally, the foreigners can sell us their securities and other property; and that is precisely what they have done.¹ But

¹ The average annual credit or debit balances of the United States for the several groups of items, for the five years 1925-1929, have been as follows, in million dollars:

Commodities, including gold	+724
Services	-881
Capital movements, including short term	-574
Interest and profits, including governmental	+693
Unaccounted for	+ 38

But while on the average the four groups have been of not dissimilar magnitudes, their variability has been very different. The *net* interest and service items have been remarkably inert and stable from year to year, though the former has been growing slowly. The net commodity and capital items, however, have fluctuated widely, at about the same times and

observe what that entails. It means that the volume of our claims abroad is growing; and that the annual flow of income from those claims, instead of holding constant or even falling, is steadily *rising*. In other words, when we take our income from abroad in the form of additional foreign securities, we are not solving the foreigners' payment problem at all. We are merely deferring the problem, and in the end making it worse.

In this international payments situation, to repeat—in this continuous struggle of foreign countries to make payments to us, in the face of legal and other obstacles—lies the explanation of much of the world financial strain in the last few years. The struggle has materially distorted the main channels of the international flow of capital; it has altered the currents of world trade; and it has been a major factor in bringing about the present maldistribution of the world's gold supplies. Of course the effort to make payments to us has not been the sole source of disturbance and strain; there are many others. The post-war efforts of the newer European countries to establish themselves as economically self-sufficient units; the rapid growth of industrial production in certain of the economically less developed regions of the world; the extraordinary revival in recent years of what can only be described as gold nationalism,—these have all been disturbing factors. Still another, of paramount importance at the moment, is the inadequacy of the French market for foreign long-term securities, and the consequent inability of the French bankers to dispose of their accumulating demand and short-term balances in the ordinary semi-automatic ways. Finally, the reparations question itself, when viewed independently of the Inter-Ally debts, is in largest part a purely European problem, not an American one. In all these matters our direct share has been small or *nil*, and our direct responsibility is correspondingly slight. But if we take the international financial situation as a whole, the position of the United States clearly remains the most important underlying factor; and all the more obviously so, now that the

in about the same degree. The explanation of this latter coincidence raises problems not relevant here. For an examination of certain hypotheses, see my paper on "Equilibrium in International Trade", in the *Quarterly Journal of Economics*, May, 1928.

actual intimate connection between reparations and the Inter-Ally debt payments has been so definitely recognized in the provisions incident to the Young Plan. In a very real sense, we are the keystone in the present international financial arch; and the payments due from the rest of the world to us are the largest single source of strain in the aggregate structure.

What will happen? Of course no one can tell, but it seems unlikely that the existing situation can continue indefinitely without substantial modification. If world trade recovers fairly rapidly from its present depression, and if the recovery leads on to a new era of firmly-grounded expansion, all these international-payment problems may drop into the background, and by most people be forgotten. If the hoped-for expansion fails to materialize, however, the development of events may easily make it necessary to take other measures. There are at least three directions in which deliberate action by the Governments concerned would give real and enduring relief. One is a revision of the present Inter-Ally debt agreements, a second is a further reconsideration of Germany's reparations obligations, and the third is a reduction in the protective tariffs of the United States and other high-duty countries.

The question of reparations is so much in the public eye at the moment that we can appropriately turn to it first, even at the risk of repeating what other speakers have already said. In recent months there has been much talk of revising the newly inaugurated Young Plan, and although the German Government has officially denied any intention to take action at present, the issue is far from settled. What is the basis of this movement for revision? If we rule out the political agitation, by no means disinterested, of the Nationalist party in Germany, it becomes clear that the movement derives the largest part of its strength from the fact that world economic conditions are far less favorable today than they were a year and a half ago, when the Young Plan was drafted and provisionally accepted. Since the middle of 1929 world business has moved steadily downward, and wholesale prices have already fallen by from fifteen to twenty per cent on the average. To Germany this means that the weight of the scheduled payments has become heavier, since the value of money

has increased, while at the same time the fields of economic activity from which she draws her tax income have been diminished. As a result, the real burden of Germany's payments today is probably at least twenty per cent heavier than it would have been at the time the Young Plan was ratified.

I believe that Germany had, and still has, the *economic* capacity to meet the payments scheduled in the Young Plan, *under the economic conditions which existed at the time the Young Plan was drawn up*. I expressed that opinion in a book published a year ago,¹ and I still hold to it. It is true that Germany would have had to continue borrowing abroad for some years, in order to secure the additional internal capital and foreign exchange required, but her own promise of continued growth made it seem fairly certain that she could carry the reparations burden without excessive strain. The events of the past twelve or fifteen months, however, have put a rather different complexion on the situation. If world prices remain at or below their present levels, even after world business activity recovers from its present slump, I think there will be good reason for seeking a reconsideration of Germany's capacity to pay, and a downward revision of the Young Plan schedules themselves,—on the obvious ground that the burden placed on Germany will then be some twenty per cent heavier than was originally intended, or more. The Dawes Plan contained an explicit provision against precisely the present contingency, of a substantial rise in the value of money; but in the Young Plan that safeguard was scrapped along with the prosperity index.² I doubt if this factor has yet become a critical element in the situation: the present financial crisis in Germany is chiefly traceable, rather, to accumulated internal budget difficulties, the origin of which is in the main quite independent of the reparations payments as such. But as time

¹ *The Recovery of Germany* (Yale University Press, 1929).

² At the time the Young Plan was drawn up the Germans were anxious to get rid of the prosperity index, which then seemed more likely to work against them than future changes in the value of money. It would also be impossible, of course, to issue commercial obligations against the full value of annuities which are subject to a value-of-money safeguard, or to offset them completely against the (fixed) Inter-Ally debt payments—considerations which were of prime importance to the creditor Powers.

goes on, unless conditions change materially, its weight will be increasingly felt. Not only will it make the real burden of German taxation heavier, but it will also augment the difficulty of selling German exports on foreign markets. The latter situation, unless Germany is able to resume large-scale borrowing operations abroad, may then at last precipitate the much discussed and long postponed "transfer crisis".

There is more to the problem than this, however. It is also necessary to consider the politico-psychological situation, which is of a rather different order, and which entails a judgment of Germany's *psychological* capacity to pay the scheduled reparations annuities, as distinct from her *economic* capacity. Of course it is easy to overestimate the direct economic effects of these psychological and political factors. But nevertheless it remains true that in the last analysis a nation *can* pay abroad only what it *thinks* it can pay; and recent history has not worked wholly in the direction of increasing Germany's confidence in her own capacity. For a decade now, Germany has been struggling to maintain an orderly and democratic form of government, and has carried on the struggle in the face of powerful internal opposition both from the reactionary groups, and from the subversive Communist forces. At the same time, and while reorganizing her domestic economic machinery after the catastrophes of war and inflation, she has for the past six years made continuous large payments abroad on reparations account, and has made them punctiliously according to schedule. It might have been expected that the other leading democratic and capitalistic countries would have supported her economic and political efforts eagerly, and would have offered the fullest coöperation; the more so, since they are now all her creditors, and directly interested in her welfare. But such has not been entirely the case: they have contented themselves with making loans, which may postpone a given issue but which never settle it. Far from offering general economic coöperation, they have put up tariffs against German goods; they have violently resented and combated German competition in third-country markets; and in every way they have sought to hinder that expansion of Germany's trade on which she must chiefly rely in the long run, if she is to pay reparations and her other debts from

her own resources. It is not surprising that even the best-intentioned Germans, realizing that they have so far been able to make reparations transfers only by borrowing the funds abroad, and seeing themselves faced with continuous commercial hostility in other countries, should find the outlook rather discouraging. Nor, at a time when business is depressed, unemployment enormous, the budget unbalanced, and political strife ominous, can it be thought unnatural if Germany honestly estimates her own capacity to pay at a rather low figure. For these latter conditions, the Young Plan seems to offer rather little real relief. Finally, the ethical basis for exacting the so-called reparations payments themselves is much less clearly established now, even in the eyes of the creditor Powers, than it seemed to be ten years ago at Versailles. It is therefore hardly remarkable that a sincere conviction of injustice should prevail among large numbers of even the most fair-minded Germans; nor that they should view their reparations obligations rather differently from the way in which they view the meeting of ordinary private engagements of a purely contractual nature. Indeed, and with a good deal of reason, they regard the re-introduction of the sanctions clause, at the second Hague conference, as an effective vitiation of the nominally contractual basis of the Young Plan agreement itself.

It is difficult to say how far these enervating and discouraging psychological factors have affected Germany's real capacity to pay, how far they would prove to have weakened it in the face of stringent necessity. But that they play a substantial part, even in what we ordinarily regard as purely "economic" affairs, cannot be overlooked. If, in making a summary judgment on the present reparations situation, we combine the psychological factors with the economic realities of business depression and falling prices, it seems clear to me that Germany's case for a revision of the Young Plan, were she to plead it, would be far from weak.

A reduction in the present schedules of reparations payments would not only redistribute the burdens left by the war, in what may eventually seem to be a more equitable manner, but would also materially lessen the present international financial strain. It appears unlikely, however, that the principal credi-

tor Powers will consent to further reductions for Germany unless they receive substantially similar reductions in their own obligations to the United States, on Inter-Ally debt account. The budget position in some of these countries, and the political situation in others, make it difficult for them to grant additional *net* concessions if they can in any way avoid it. In other words, and barring an outright breakdown of the German foreign-payment machinery, the practical possibility of achieving a revision of the reparations schedules depends on the possibility of securing further reductions in the American Inter-Ally debt claims. I do not propose, however, to debate at this time the justice or the expediency of such a revision. It is enough to call attention to the situation itself.

There is another direction in which positive action can be taken, however, and one which would give relief from the existing international strain on a much broader scale. That action is a reduction in the present high levels of the world's tariffs. Here the United States is one of the worst offenders; and the damage we are doing is not confined to the difficulties we place in the way of our own exporters, or of foreigners who have payments to make to us. Few Americans realize the extent to which other countries have patterned themselves on us in matters of protection. Their argument, if naïve, is plausible. They say, in effect: "The United States is prosperous. It has a high protective tariff. Let us too install a high tariff, and thus acquire prosperity." Of course, the desire for national self-sufficiency has also played a large part; but in recent years increasing emphasis has been placed on the achievement of prosperity. The result has been cutthroat tariff competition; and instead of gaining, everybody has suffered severely — even including the United States. If the United States were to inaugurate a program of reductions, on the other hand, it is highly probable that the other countries would rapidly follow suit; and indeed, by action through the League of Nations, they have already prepared the way. It seems to me unbelievable that our present "tariff of absurdities" will be kept on the statute books for very long; and the movement for revision is gaining strength steadily. If we make substantial reductions, and the other leading nations take similar action, the resulting great stimulus to world trade

and industry will not only help to dissipate the present business depression, but will permanently lighten the financial strain throughout the entire world.

Here as in the problems of reparations and the Inter-Ally debts, however, the world is apparently waiting for us to show the way. The United States is now both the keystone in the international financial arch, and the chief source of pressure on the world's foreign-payment machinery; and it is most probably from us that the first measures of alleviation must come. Whether by initiating a general reduction of tariffs, or a general revision of the inter-government payment schedules, or by other steps, there is clearly much that we can do. It is true that any such action would presumably entail an initial sacrifice on our part. But the marked expansion of world trade, which could reasonably be expected to follow any substantial measure of relief, would certainly bring us great benefits, and would most probably leave us eventually with a large surplus of net gain. If we do not take action of some sort voluntarily, on the other hand, it is by no means impossible that action will later be forced on us by the development of future events, and even by a breakdown of the whole international payments structure itself. The present world situation calls for sound judgment, but it also calls for courageous leadership, and no nation can now undertake that leadership more effectively than the United States.

DISCUSSION: AMERICA'S INTEREST IN THE SETTLEMENT

(An abstract of the discussion at the close of the Second Session, following the addresses which are printed in Part II of this volume.)

HON. ALANSON B. HOUGHTON (President of the Academy of Political Science; former United States Ambassador to Germany and to Great Britain), *Presiding*: The discussion under the ten-minute rule will be opened by DeWitt Clinton Poole. Mr. Poole has only recently returned from Berlin where he was Counsellor of the Embassy. He has now been made Chairman of the Advisory Board of the School of Public and International Affairs at Princeton University.

MR. DEWITT CLINTON POOLE: It is only fair to myself to say at once that I did not have the advantage of reading these papers in advance. Even if I had, I doubt very much if it would have enabled me to add to what I can say to you now. Each of the gentlemen who has spoken is distinctly an authority on his particular subject, and I could neither add nor subtract. I would therefore, if I may, say a few words on an aspect in which I have had a little experience. That is the political aspect of these business or economic problems.

I was very much interested and pleased to hear the last speaker,¹ who dealt with his subject so ably from an economic point of view, refer also to "the politico-psychological situation" as he calls it. After all, it is the spirit that determines; we can set up economic machinery, we can make contracts, but the final answer is a political answer.

This morning, so as to have some light reading while coming in from Princeton, I brought this volume along. It is the report—both fortunately and unfortunately the last report—of the Agent General for Reparation Payments. I should like to say parenthetically that this series of documents is possibly the most remarkable in the world. So far as I know, never in history has a country been subjected, over a period of years, to so intelligent an audit as has Germany through the reparations organization. It is even mooted in Germany that by some means or other they should find other impartial auditors to continue this work for their benefit.

¹ Mr. Angell, *supra*, p. 70.

In reading over the report I came across a sentence of Mr. Gilbert's that struck me as a significant comment on the importance of the political factor. He writes in his introduction: "But though the means exist, and the public revenues provide the essential material for a well-balanced budget"—that is to say, in Germany—"the determination to control expenditures and to keep them safely within the limits of available income has been lacking . . ."

I understand why Mr. Gilbert wrote this. It is probably well that he did write it in the unqualified manner you have just heard; but it is a little unfair. It is true that they haven't handled budgetary matters in Germany as wisely as it has been pointed out to them that they might have handled them. But there we come to the political factor.

The difficulty has been this, as you probably know, that under the new constitution the Reich raises all the taxes, and then these taxes are distributed in accordance with certain ratios and coefficients among the state and local governments. The result is a vicious situation in which public money is disbursed by public authorities which have not had to bear the responsibility of collecting it. That has coincided with a wave of Socialism in Germany. The Germans in modern times have been a socialistically inclined people. You may recall that Bismarck helped to start them on the road. Since the war the Socialists have come particularly into the town councils and the smaller governmental units. And the temptation to spend money has been very great. As a human matter we must understand why bathing establishments and pleasure parks and theaters and other appurtenances which are very nice but possibly not essential, have been built in Germany during this period of stress.

I bring this out merely to emphasize that in all such matters we must reckon on popular opinion—on popular feeling. When I heard Dr. Angell plead, very wisely and correctly maybe, for a more lenient attitude on our part, I could not help thinking of the same thing. After all, if the electorate in the United States would be willing at this juncture to add to the sacrifice, to the reduction in debt payments which it has already consented to, it would be admirable indeed, and something, I believe, quite unprecedented in history.

I would like to read one other sentence from Parker Gilbert's report, as a text for a few more rambling remarks. Mr. Gilbert writes:

"Germany's credit has been reestablished both at home and abroad"—that is during the period of the Dawes Plan—"her industries have been reorganized and her productive capacity restored, and the general standard of living has been greatly improved. This result has been achieved primarily through the industry and energy

of the German people, but the people of other countries have also assisted in large measure by making their savings available for the rebuilding of the German economy."

I think that without exaggeration it can be said that these two sentences might be made a monument in history. Has there ever been a time before when a nation was defeated in a war, was the object of hatred, and was helped to its feet as Germany has been? You may say that it was done out of selfish interest; but I still submit that it is a remarkable event that we can well remember when we get into a mood of self-castigation. Incidentally, I think it is one of the best justifications for the capitalistic system that I ever encountered.

That leads me to the relations of the United States to the whole problem. It is the United States which primarily has lent this aid to Germany. It may be interesting just to run over some of the things that Germans, if I may venture to be their interpreter for a minute—Mr. Houghton will correct me if I am wrong—have for and against us.

First, we should go back to the framing of the reparations provisions of the Treaty of Versailles. It is known that the American participants used their influence for moderation, and that is not forgotten in Germany.

Subsequently we displayed our confidence in Germany's economy, rather foolishly in one regard, when we bought a large quantity of inflation marks. That whole episode was wiped out simply by an administrative decision in Washington. Large claims were sought to be filed against Germany under that head, and the Executive Department of the Government took the moral responsibility of throwing them out. Again that is a point to be borne in mind.

Since then we have made sound investments, and the Government has taken an active part in seeing that they were sound. In Germany the *Beratungsstelle* was set up to determine what enterprises were worthy of support. I should like to testify here, out of my own personal experience, to the hearty coöperation which was given from Washington to the Germans in this effort to protect their economy.

Mr. Mills has already told you about the handling of German-American claims and the return of German private property sequestered during the war. Those are chapters that might be enlarged upon advantageously in the story of our relations with Germany.

Now we come to the difficulties. In spite of what Mr. Mills tells us about the handling of our financial relations with Germany—and I think our Government has done everything possible to avoid

difficulties—it is still a fact that Germany is the one debtor and we are the one creditor. Directly or indirectly, they pay out and we take in, and that is going to affect the political situation for an indefinite period.

Dr. Angell has spoken to you about the tariff. I don't agree with Dr. Angell in much that he said, but there is no use going into that. It is quite clear in the German mind that the American tariff is one of the great obstacles to their paying off their debts and being completely rehabilitated.

So much for the past and present. What is going to happen in the future? Mr. Sterrett has told you about the size of our stake in Germany. It is enormous. We have large investments there. I read in the *New York Times* recently that 226 American companies have subsidiary units in Germany.

What does it all mean? It means that we are in a very delicate and difficult situation. The question has come up now of a possible moratorium under the Young Plan. Germany will not herself ask for it if she can help it, because it might mean the destruction of German credit. But it is perfectly plain, if you will read between the lines in the papers, that a concerted effort is being made to have the United States suggest such a moratorium. If I had time, I could give you citations on that, but it is well known. The suggestion apparently emanates from another European power. Obviously if the United States suggested a moratorium it would be fine for everybody else; if the chief creditor suggests a conversation, of course there can be only one outcome. I say that in not too cynical a vein, but merely to suggest to you the extreme delicacy of our position. I admire greatly the spirit and the courage with which Dr. Angell spoke; but at the risk of striking a note unwelcome here I venture to say that we have got to go very, very warily. This is a complicated situation. We don't know much about it. Internationally we are just in our adolescence in this country, even in financial matters. We must proceed in humility of spirit and with a lot of Yankee good sense.

MR. ALBIN RUSSMAN: Something was said a moment ago about the deflation of German securities, and the statement was made by Mr. Poole that by "an administrative decision in Washington" all claims on this score were thrown out. I think it was under the Dawes Plan that all payments for securities that came here during the deflation were specifically wiped out and not considered claims. I would like to have that correction made if I am right.

MR. POOLE: My statement was based upon a knowledge simply of the facts stated. There may be additional facts. Within the past few years, claims have been filed in Washington for recoveries under losses due to the speculative purchase of the old marks, and those claims were thrown out. What may have happened in addition to that, I am unable to say.

MR. RUSSMAN: I think you will find that in the Dawes Plan they distinctly state that those are not to be acknowledged as claims. I don't believe that the Mixed Claims Commission had jurisdiction in matters already settled by the Experts in the Dawes Plan, which arranged for the payment of reparations stipulated by the Versailles Treaty. I think you are mistaken to that extent.

MR. POOLE: I shall be glad to accept the correction if that is the case. My point is this, that I hear so much said in derogation of those who have this extremely difficult task of conducting our foreign relations that I always seize every opportunity of pointing out instances that are known to me of moral courage, and I should like to emphasize the fact that in the nature of things those incidents are ordinarily not known to the public. I accept any necessary correction to the extent of saying there may be additional facts, but I am quite sure of my information so far as it goes.

MR. ARMSTRONG: As I understand it, the Reich now controls the collection of taxes for both the government and the states and municipalities. In so far as these states and municipalities make loans abroad, will the Reich take any responsibility for such loans, since it will be only through the revenue which the Reich collects that these loans can be paid?

MR. HOUGHTON: I fancy, broadly speaking, that if you buy New York securities or securities of the City of Berlin, you must depend upon the good faith and ability of New York or of the City of Berlin to pay them.

MR. ARMSTRONG: But in New York State, New York State has the responsibility for collecting taxes. The situation is different to that extent, it seems to me.

MR. HOUGHTON: If there are no other gentlemen who care to take part in the discussion, I declare the meeting adjourned.



PART III
INTERNATIONAL COLLABORATION



PHASES OF THE WORLD DEPRESSION ¹

THOMAS W. LAMONT

Of J. P. Morgan & Co.

SIR CHARLES, Mr. President of the International Bank, Mr. President of the Academy, Mr. Jeremiah Smith, Distinguished Economists that flank me on either side, and Members of the Academy: First of all, in behalf of the Academy, I want to express the gratitude of its members to Dr. Samuel McCune Lindsay, who, after an unparalleled service of devotion and effectiveness covering twenty years, has retired from the Presidency of the Academy. I ask you by handclap to give your greeting to Dr. Lindsay whom we admire and love so much.

On behalf, too, of these members present, I want to express the intense satisfaction which we all have in the fact that Ambassador Houghton has been good enough to accept the Presidency of the Academy. We are indeed fortunate in having him in that position. As time has gone on it has seemed that the deliberations of the Academy have had to do more and more with affairs international in aspect, and one who combines so well as Ambassador Houghton does a large experience in foreign affairs, and a fine, sane outlook, is just the man we could wish to be at the head of this Academy.

I want to express, in behalf of the Academy again, the very deep sorrow which we all feel in the death of our colleague, Professor Henry Rogers Seager, one of the most distinguished economists in this country, one who laid down his life only recently in endeavoring to carry out a piece of difficult and constructive work. He was to have been Chairman of your Program Committee for these meetings. We were fortunate, indeed, in securing as his successor Mr. Jackson Reynolds of the First National Bank of New York, and it is very largely

¹ Remarks at the Fiftieth Annual Dinner Meeting of the Academy of Political Science, held at the Hotel Astor in New York City on November 14, 1930.

to him that we are indebted for the success of those sessions which have been held this morning and this afternoon, and for the very eminent and constructive addresses which he was able to arrange for those meetings. I might take occasion at this moment to thank him also, in behalf of the American people and even of a great many nations, for the work he did at Baden-Baden and The Hague in acting as the Chairman of the Committee which set up the International Bank, that great constructive mechanism upon which we rely so largely to carry out the operations of the Young Plan.

As you are aware, the sessions of the Academy this morning and afternoon have been largely devoted to discussions of the Young Plan in operation. And the question is frequently asked as to what extent did the changes adopted at The Hague by the Governments affect the Young Plan, as signed at Paris. Most observers would say not very materially. The total amount of payments was not increased by a penny, but Germany agreed to enlarge by a small percentage, during the early years of the Plan, the amount of non-postponable annuities, diminishing the postponable annuities by a corresponding amount. Dr. Schacht, the former head of the Reichsbank, has declared that the handling of other questions at the Hague Conference altered the Young Plan to a great extent, but the record would hardly seem to bear out his contention.

But the successful working of any extensive scheme of international finance depends to a certain degree upon the state of world economy. And there can be no question that the world is just now finding itself in a severe industrial and commercial depression. Looking at this depression as a whole, and not simply as it concerns our own country, the general consensus of opinion ascribes this world-wide phenomenon chiefly to the following causes:

1. To production outrunning consumption not only in many basic commodities, such as cotton, wheat, copper, rubber, silk, sugar, oil, but also in many manufactured products.
2. In part to the effort made in many parts of the world to hold up commodity prices artificially, whether in rubber, cotton, wheat, coffee, copper, or what not. When prices for such commodities finally gave way, the severity of the business collapse was accentuated.

3. To the fall in the price of silver, and thus in the purchasing power of over one-third of the world's population as represented by India, China, Mexico and other silver-using countries.
4. To a shifting, on an almost unprecedented scale, of gold holdings among various countries. Thus, from the beginning of 1929 to date, the Bank of France and the Federal Reserve Banks of America have increased their gold reserves in the aggregate amount of approximately \$1,120,000,000, a large part of this being drawn from the central bank reserves of other countries.
5. To current political unrest in many quarters of the globe, including notably India, China and South America.
6. In certain countries of the globe, especially America, to a spirit of rampant speculation. For some years many people lost interest in investing their money in good bonds, returning a fair rate of interest. They have wanted quick speculative profits, with the inevitable result that everybody knows.

As to the extent of over-production of basic commodities, most figures as to world production are of necessity incomplete and imperfect. But the following table which has been compiled from the best sources available shows clearly what an excessive rate of increase the year 1929 disclosed:

	<i>Average Annual Rate of Increase in Production 1923-1928</i>	<i>Rate of Increase in Production 1929 over 1928</i>
Cotton	0.8%	8.2%
Sugar	5.8	6.2
Rubber	6.5	20.1
Copper	5.6	8.9
Crude Petroleum	5.1	10.5
Pig Iron	4.9	11.6

In the matter of over-production here there can be no question that our somewhat antiquated anti-trust laws have been in part responsible for encouraging excessive construction of plant and equipment in the industrial field. The present law constitutes almost a mandate to every wide-awake manu-

facturer to duplicate the facilities of his rival, and the result is bound to be a great economic waste. I am not assuming to suggest the sort of remedial legislation that should be had in order to avoid this obvious wastage of capital, brought about through almost unbridled competition. But at least we can remember that the present anti-trust laws date from 1890. Would it not seem advisable for our national legislature at least once in a forty-year period to review the workings of a statute like the Sherman Anti-Trust Act which bears so vitally upon the problems of labor and capital?

In the midst of the efforts which the community has been making to meet abnormal conditions and to bring adjustment out of maladjustment, we run into many people, especially in the United States of America, who argue that the slump in trade can be cured by new laws or by some new formulae. They ignore the fact that in America our situation has been gravely accentuated, as I have said, by the extremes to which our people—who are at times given to extremes—have gone. For several years the public bought ahead, speculated, made money and spent it. Then the turn came. Now we may be thankful that these same people are working and saving. We must let this process develop, encourage our recovery to be orderly and step by step. We must not try to over-stimulate ailing business with nitro-glycerine pills; for if we do we may have further explosions!

Our community as a whole has manifestly got back to a sober sense of realities. In that respect the situation is far sounder than it was fourteen months ago. Incidentally we have complicated this situation of ours—though no one can as yet determine whether seriously or not—by hanging the load of a new tariff act around our own necks. The increased rates have certainly led to a certain feeling of dismay and ill-will abroad and to some retaliatory tariffs. They have probably also caused some harm both to home trade and to our international commerce, because of the uncertainties and dislocations which they have created. It would be easy to magnify the ill results of the new American tariff. We cannot class them as controlling factors in our present depression. But there can be little dispute that we chose a most inopportune time for this particular tariff enactment. With both domestic

and foreign trade beginning to show signs of a decline, as they did in the early summer of 1929, it surely was not the time to build up new barriers against world trade. Certainly, too, we did not take a happy method of encouraging our foreign customers to buy more of our goods. Nor did we make it any easier for them to pay their governmental debts to Washington.

Be that as it may, the energy with which the federal administration, the state governments and men of affairs generally have addressed themselves to measures of relief for unemployment and to the adoption of such reasonable means as can be devised for curing certain of our maladjustments is worthy of full praise. Such efforts are commanding instant and active coöperation from almost every quarter. But the problems are many-sided, and as I have already indicated, we must not be impatient for too speedy solutions. We have to contend, as an English writer has pointed out, with revolutionaries who think the world so bad that only violent change can better it, and with reactionaries who consider the safety of our economic life so precarious that we must risk no new experiments upon it.

In the last century America has had many periods of serious decline in trade and industry. Since the beginning of the nineteenth century, we have experienced some thirteen crises or acute depressions in business, occurring in the following years:

1818	1857	1907
1825	1873	1914
1837	1884	1921
1847	1893	1930
	1903	

Each period of acute crisis has invariably been followed by depression in business, this in turn gradually giving way to expanding activity, followed eventually by over-expansion, over-speculation and again a crisis. This pattern of regularly recurring expansion, over-expansion, crisis and depression, has come to be known as the "business cycle." Why do these cycles recur? Does the answer lie in an unsound public economy or in the weakness of human nature?

Answers to these questions have for years been sought by

an increased number of economists, statisticians and other students. Offhand we call to mind the work of the National Bureau of Economic Research; the President's Conference on Unemployment of 1921; the economic departments of our leading universities and many private industrial and statistical organizations. Yet all our studies have as yet failed to show the world how to prevent these exaggerated swings of the business cycle. Certainly in large part they are due to psychological factors, to over-confidence and unreasonable optimism at one point in the cycle, and to under-confidence, undue pessimism and a general fear of vague, impending disaster at another point in the cycle.

It is, we hope, just that low point of the cycle that we are passing through now. And the extreme of our depression is probably as unwarranted as the extreme of our exaltation was fourteen months ago. In saying this I am but repeating what you all well know. But let us have no misgivings as to the ability of our country to win through its difficulties. Our economic, our financial, our banking world are far better ordered—even though for the moment in our gloom we may fail to realize the fact—than they have been in the past. In the Federal Reserve we have a currency and banking system strong enough to endure all the strain we are likely to put upon it, and equipped to supply ample credit for all sound enterprise. Savings-bank deposits have materially increased in the last eight months. The stocks of merchandise in the hands of manufacturers and merchants is not excessive as it was in 1921. Our great corporations are well financed and have large resources of liquid capital. And while at times like these we are apt to disparage the efforts of analytical study, nevertheless, we are gradually advancing towards a better understanding and handling of economic cause and effect.

Again, I say with you all: not only shall we win through, but we *are* winning through. The process is already under way—that process of working and saving, the exercise of patience and courage. Two years ago in the midst of what certainly seemed to many persons a dangerous expansion of speculative activity—but with no apparent end to it in sight—General Dawes, our Ambassador at London, remarked to me

there: "This round of speculation cannot go on. I don't know when it is going to stop. But you will wake up some morning and find that the American people have turned over in bed and that the speculative orgy is over."

General Dawes was quite right. The American people—in the words of his homely phrase—turned over in bed one night a little over a year ago and have been on the wrong side of the bed ever since. In the same way one of these bright mornings that same American people will be found to have turned over in bed once more and this time in the right direction.

I have wandered a long way off from the workings of the Young Plan. But as I look across the Atlantic and see the slow and patient upbuilding of a war-torn Europe; as I see the resolution and the courage with which our brethren overseas have undertaken problems infinitely more critical than our own; as I turn again to America and witness the spirit of steadfastness and coöperation which our own community is showing in its difficulties; I have come to believe that Isaiah must have been a prophet of our own day and generation when he said: "They helped every one his neighbor; and every one said to his brother, Be of good courage."

THE OUTLOOK FOR INTERNATIONAL COOPERATION IN FINANCE

SIR CHARLES STEWART ADDIS, K.C.M.G.

Chairman, Hongkong & Shanghai Bank, London; Director, Bank of England;
British Member of the Committee of Experts on Reparation, 1929;
Vice-President, Bank for International Settlements,
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IT is a great pleasure to meet in this delightful way the members of the Academy of Political Science, and I especially welcome the occasion you have afforded me, the first in my power, of expressing to Mr. Owen Young and his American associates the grateful thanks of their European and Japanese colleagues for their unselfish and devoted help in the long endeavor to arrive at a settlement of the reparations problem.

Nor can I forbear to seize this opportunity of bringing my quota to the immense tribute of gratitude we all owe Mr. Parker Gilbert for his incomparable services. The Paris negotiations in connection with the reparation problem were, as the Duke of Wellington said of the Battle of Waterloo, "a d—d close-run thing." But for the prescience of Mr. Parker Gilbert in reading the signs of the times, making up his mind that the hour had come to determine the amount of German annuities, and his persistence in enforcing his views upon others, the opportune moment might have passed and the world might still be waiting for a settlement.

Nor is that all. During the protracted negotiations which ensued, his helping hand was everywhere, and it was to him that we all learned to turn in any perplexity. His wisdom and his forbearance, his unrivaled mastery of every detail of the problem, could not but win our respect and regard; but it was his constant kindness and courtesy on which we like to dwell most pleasantly. His smile disarmed discord and compelled affection. It scarcely came as a surprise to some of us to find that an acquaintance begun in ordinary official inter-

course had ripened at its close into a warm personal friendship with which we should be loath to part.

Here, Mr. Chairman, if I consulted my own feelings, I should stop; because I am conscious, that, after a long day devoted to the examination of the Young Plan, it may seem presumptuous and even impertinent of a mere supernumerary like myself to come here and talk to you about the Young Plan in the presence of some of the principal actors upon that memorable scene.

I plead in extenuation of my offense that a work of art, and especially a composite work of art like the Young Plan, has many phases, the full value of which is not disclosed until they have been regarded from different points of view. And mine, you will understand, is my private view. It commits nobody, not even myself. I am only thinking aloud, groping after the heart of the scheme, trying to discover the spirit which must animate it if it is to justify the claim that a new and salutary economic force has risen upon the world.

There is inherent, I suppose, in every work of art that which transcends the conception of the artist; and in the Young Plan, as I conceive it, may be discerned the germ of an idea, unperceived at the time in the minds of its makers, which, if only we have faith, will in due time be revealed and brought to fruition in a higher level of economic stability and mutual peace and good-will among the nations.

To say that the authors of the Young Plan may not have perceived all the implications contained in it is not to suggest that they did not aim high. Indeed, ladies and gentlemen, as I reread the report, I am struck afresh by the boldness and audacity of their ideas. Their object, they say, is nothing less than to establish international harmony, not, as I understand them, founded upon international law, but upon the general conscience, acting as a unit to substitute coöperation for conflict as a mode of settlement in international affairs.

This, I think, was what the authors of the Plan had in view when they stipulated that the directors of the new Bank for International Settlements, which is to execute the provisions of the Plan, must be men possessed of special qualifications. What was it that they were expected to do? The Committee leave us in no doubt upon that point. The directors, it appears,

are to banish the atmosphere of war; to obliterate its animosities, its partisanships, and its tendencious phrases, and to work together in a spirit of mutual interest and good-will.

The basis of security, the Committee roundly assert, is henceforth to be the word of the German Government, to which no further guarantee could add anything whatsoever. It is to be the function of the Bank to minimize the effect of economic changes upon the flow of international payments, to facilitate, augment and perfect the existing machinery for carrying out international settlements, and to act as a factor in stabilizing the foreign exchanges and eliminating the cost and expense incurred in the shipping and reshipping of gold.

The Bank is to contribute by the use of its credit to the development of international finance and to open up new fields of commerce and of supply and of demand. It is expressly enjoined upon the Board that the use of this credit is not to be confined to Germany, but is to be made applicable to the advantage of all countries, as a normal function scarcely differing in its exercise from the use of banking credits by bankers generally.

All central banks, the Committee believe, will frequently find it to their advantage to make use of this credit for their ordinary exchange operations and for other purposes, such as to finance purchases of deliveries in kind by means of short or intermediate credits and for the construction of public works on deliveries-in-kind account.

Here, again, the Board are reminded that the use of this credit need not be limited to any one country or to the purchase of any one country's goods. On the contrary, it is desirable, in the opinion of the Committee, that the base of these operations should be widened as far as possible in the interests of international trade. It is the hope of the Committee that the Bank may develop into an organization, not simply or even predominantly concerned with the handling of reparation payments, but also with supplying the world of international finance with important facilities which have hitherto been lacking.

Finally, it is the earnest hope of the Committee that this bank may be an increasingly close and valuable link in the coöperation of central banks, a coöperation which the Com-

mittee believe to be essential to the maintenance of the world's credit structure.

That strikes one as a grave and almost startling conclusion to an otherwise sanguine report. I think that it deserves serious attention as the considered opinion of representatives of the central banks of Great Britain, France, Germany, Belgium, Italy, and of kindred financial institutions of the United States and Japan. It is the deliberate opinion of these gentlemen that the credit structure is in jeopardy and may break down if the central bankers do not put their heads together and devise concerted measures for preventing it.

What was in the minds of these men which led them to close with so solemn a warning? I think before we can frame an answer to this question, we must first form a clear conception of what the nature of the credit structure was as it existed in Europe before the war. It is the subject of a brilliant analysis by Mr. Keynes in the introductory chapter to his *Economic Consequences of the Peace*.

For nearly half a century before the war, the economic life of Europe was centered in Germany. Within the three empires of Russia, Germany and Austria-Hungary nearly 300,000,000 of the population lived in almost absolute security of property and person. The interference of frontiers and tariffs had been reduced to a minimum. The flow of trade and capital was facilitated by all the currencies being established on a stable basis in relation to gold and in relation to each other.

Population was indeed increasing, but not more than production, which was more than keeping pace with it. The trade with countries in the agricultural stage of development was growing. The supply of imported foodstuffs was abundant and cheap in terms of the labor required to produce the goods exported to pay for them. The extension of communications and of facilities of transport made for general harmony among the people and the supply of food was abundant.

Never before over so large an area, and for so long a period had Europe enjoyed the blessings of order, security and uniformity. Then came the war and in its fell course this delicate and complicated machinery, by which all this prosperity had been built up, was broken to pieces. When the long struggle came to an end, a great part of Europe lay sick and dying.

Its population was greatly in excess of the available means of livelihood. Its organization was destroyed. Its transport system was ruptured. The supplies of food were terribly impaired. Such are the fruits of war.

It has often been made the subject of remark that countries rapidly recover from the effects of war, and it is true that the traveler in Europe today sees few vestiges of the dreadful carnage of which the fields smiling before him were only a few years ago the scene. We may well take heart of grace when we survey what has been done, since the Treaty of Versailles was signed, to repair the ravages of war.

Nothing, indeed, can give us back our dead—the loss of the flower of our youth is irreparable—but by the efforts of those who survived, the condition of Europe today, although not what it might have been in the ordinary course of events, is still something like what it was before the war. There are few traces visible of the scourge which passed over Europe only a few years ago. The tumult of war passes. Man wakes up gradually to realize with a sense of startled surprise that he is still living in the land in which he was born. The old habits, the old ways of thinking come back. Man must live. His former life, his customary vocations are resumed.

Gold is once more established as the basis of circulation. The supply of food is once more in no lack. Above all, and before all to those who believe that the world is governed by ideas, there is being engendered in Europe a new spirit, a new international spirit which rejects the arbitrament of war and is seeking in common agreements a more secure foundation for peace than all the bloated and competing armaments of the past have ever in fact been able to afford.

So much is clear. But if we are to escape error we must be careful to guard ourselves against pressing the analogy with the past too far and concluding too hastily that as things have been they remain. For on closer examination there are brought into the light of day certain subtle changes in the economic forces fashioning it, which appear to justify the conclusion of the Young Committee that the credit structure is not so stable as might at first sight appear. The economic machine has, indeed, been reconstructed, but its component parts have not yet been fitted for effective working or adapted

to the new and changed economic conditions. The international spirit, to which I referred, is indeed gaining ground, but it has not yet succeeded in persuading the smaller nations of Europe that it may be the part of an enlightened patriotism, leading to an ampler fruition and fuller expression of the national life, to enter into common agreements for the freest possible exchange of goods and services, rather than to pursue a policy of self-sufficiency and of economic isolation.

The gold-exchange standard is again in operation, but this time with a difference. No longer can we say it is the swiftest and most effective means of equating the balance of exports and imports, that it serves as an automatic signal to indicate that internal and external prices are out of equilibrium, or that it acts as the regulator of the foreign exchanges by distributing the supply of bullion among the nations in proportion to their effective demands for gold as a basis for currency and credit.

I now wish to touch upon a point where I feel I must "gang warily". That this maldistribution is one cause, if not the predominant cause, of the continuous fall in the general price level, and that it constitutes the most serious menace to the stability of the credit structure, is no longer in doubt by any recognized body of economic opinion. I must, however, guard myself against misconception. I do not refer to low prices—prices as such are indifferent—but to falling prices with all their depressing effect upon business confidence and business enterprise.

This maldistribution entirely upsets, among other things, the conditions on which we formerly depended, the free competition and higgling of the market, for producing the equation of price at which the needs of both buyers and sellers are alike satisfied. We have to recognize that this condition no longer exists. The price of labor, for example, throughout the wide range of sheltered industries, is protected by wage agreements which virtually close the door upon competition. There are various industrial groups, formerly in active competition with each other, who have been driven to defend themselves by movements in favor of rationalization or other forms of concerted action, the tendency of which, if not always the avowed aim, is to make prices rather higher than they would have been under competitive conditions.

It would be easy to multiply other defects in the economic machine which are retarding our recovery and I do not wish to enter into technical details which are not fitted either for this occasion or this audience; but I have said enough, I hope, for my purpose which is to show what the authors of the Young Plan had in view in coming to the conclusion of their report. Without, they say, the active coöperation of all parties, "the long, slow, patient task of reconstruction in Europe must be indefinitely retarded".

It is to this task that the directors of the Bank for International Settlements have been called, and it is no wonder if in assuming their responsible rôles one or the other might be overheard muttering to himself—

The time is out of joint: O cursed spite,
That ever I was born to set it right!

The Bank for International Settlements has started under favorable auspices. It is, of course, too soon to attempt to sketch the possible sphere of its operations or the limits within which its functions may be prudently exercised; but it is not too soon to note with considerable satisfaction the increasingly favorable atmosphere in which its directors have been enabled to meet.

The impression left upon one of them, at any rate, is that of a growing spirit of sympathy, of give and take, of mutual understanding and good-will, which are the happiest augury for the future. The initial difficulties of constructing an effective financial institution on an international basis for which there is no precedent are, of course, enormous, but they are gradually being overcome and an international staff is being selected and imbued, I believe, with a spirit of loyalty to the concern, thanks in no small degree to the patience, the tact, and the long-tried experience of the President, Mr. Gates McGarrah, and his able lieutenant, Mr. Leon Fraser.

Much, no doubt, will be expected of the body of sixteen directors, shortly to be increased to twenty-five, and representing, it will be said, the collective wisdom and experience of the bankers and industrialists of Europe, of the United States

and of Japan. We shall be wise not to hurry them or to expect too much in the early stages of the Bank's career. There are many obstacles to be overcome before the goal even comes in sight. If you will bear with me for one or two minutes longer, I should like with your permission to refer to one of them in a very few words, partly because it lies across the threshold of the Board's proceedings and partly because I feel that, like the infirmity of the deaf, it seldom receives that full measure of sympathy and forbearance to which it is entitled.

When we argue among ourselves, we English-speaking peoples, we are conscious that in our use of words we are merely making shots at ideas. Sometimes we bring them down; sometimes we do not. But when we are arguing with men of another race and speaking another tongue, our difficulties are very much more than doubled. The broad internationalism of the Bank of International Settlements is a source of strength. It is also a source of weakness. For no two nations argue in the same plane and there is always the danger of attributing to bad faith some misunderstanding which may really have its origin in differing political constitutions.

It is not so easy a matter as might at first sight appear, to translate one language into another. "The Tower of Babel stands like a blockhouse in the path to understanding." The task of translation is but half done until a common denominator has been found not only for differences of language, but for differences of national temperament. It is not enough for the Board of the new Bank to adopt an agreed policy. If it is to be carried to a successful issue, its members must learn to comprehend and respect the views of others and to acquire the art, by no means an easy one, of accommodating the national temperament to international uses.

This need not and ought not to involve any material sacrifice of national interests. It is not by sacrificing particular interests that the Board of the International Bank will best advance the general interest. Internationalism is not to be confounded with cosmopolitanism. In the latter patriotism is indifferent. In the former it is raised to a higher power. Regarded in this way, I would even go so far as to say that internationalism is an exemplification of the biblical precept,

"Thou shalt love thy neighbor as thyself"—and I hasten to add, not more than thyself.

The Board is entering uncharted country which will have to be mapped out. A preliminary examination must be conducted into the constitutions of the different central banks concerned, their relations to private banks and financial institutions, the conditions of the markets in which their operations are carried on, before the directors will be in a position to address themselves to an examination of the complicated and difficult questions involved in formulating a considered monetary policy.

What that policy is to be, the report leaves us in no manner of doubt. It is to be a policy of what, for want of a better name, we may call stabilization. I do not claim for that policy that it is a remedy for all our economic ills. There is no specific remedy. Their origins lie deep in the past. Their causes are manifold. We have reached a deadlock and there is no way out except by frugality, by punctuality and by diligence. Difficulties were made to be overcome, and in the exercise of that patience which they have shown in their earlier proceedings, the Board of the International Bank will perform a great public service if they do no more than carry on an intensive examination of the dangers of monetary instability and the possibilities of devising means for its mitigation or cure. In my judgment the problem presses for solution and will not brook delay. We may continue to drift, but disaster lies that way. It is simply intolerable that we should continue to sit with folded hands like idle spectators at the play while industry and trade are made the sport of our ineffective monetary systems. We must be the masters and not the slaves of money.

Of this I am sure, that until in some way or other the monetary problem has been tackled, all our efforts to restore prosperity to trade, to maintain continuity of the credit structure and to inspire fresh hope and courage in the breast of the worker will be of no avail. But I am equally confident that the Board of the International Bank will rise to the height of their opportunities and raise their minds and their imaginations to the real meaning of the task to which they have been

called, and that in due time and with patience we shall weather the storm.

Dr. Stewart this morning at the end of an excellent address quoted with great effect the lines which I now venture to repeat.

We sail a changeful sea through halcyon days and storm,
Our stability is but balance, and wisdom lies
In masterful administration of the unforeseen.

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INTERNATIONAL COOPERATION AND THE YOUNG PLAN

JEREMIAH SMITH, JR.

Former Commissioner General of the League of Nations for Hungary

SOME two weeks ago I got an advance notice of this dinner and reading it, I observed with horror that it stated that I would make a "forceful but witty" speech. I may tell you confidentially that I have very serious doubts as to whether I shall say anything either forceful or witty. If I don't, don't blame me, blame the Chairman of the Program Committee who signed that letter and who is present here tonight.

I am very glad to have a chance to say a little something about international coöperation, because I have had some small part in it. I have listened with great interest to what Sir Charles Addis had to say, because he has anticipated some of the remarks which I had intended to make. But the first thing he hasn't anticipated, and that is, the public attitude toward that sort of thing in the United States. Of course, this audience understands it, but I have observed that nearly all the politicians, a large part of the public press, especially outside of New York City, and some of the public, think that the worst name they can call an American is an "internationalist", unless they call him an "international banker".

Mr. George P. Auld has said there is a belief in this country that anything that is good for Europe must be bad for the United States, *ipso facto*. That is really not to be wondered at when we consider our history. It has always been the general belief in this country that Europe was a wicked place. Machiavelli, Talleyrand and Metternich came from over there. They have kings there. They don't have as many as they had when George Washington was alive, but they still have some, and for 150 years the only principle of foreign affairs that every American has gotten thoroughly through his head and understood, out in the great, wide-open spaces, has been

that the United States ought to keep out of Europe, and Europe ought to keep out of the Americas—which is commonly known as the Monroe Doctrine.

With that background and that history, it is not to be wondered at that they consider an internationalist to be a sort of soft-headed sentimentalist who will give his coat and shirt to any foreigner who asks him for it, and, if he is representing his country, he will give away his country's coat and shirt.

But the times have changed and there are a lot of people who don't know it. There are a lot of people who don't know that the world is round. They got twelve votes in the United States Senate against a Naval Treaty which couldn't possibly do any serious harm to anyone and might do a great deal of good. Possibly you could get twelve votes for a proposition that the world is flat—that I am not so sure about. Lots of people don't realize that sailing ships have gone from the ocean; that the United States has the biggest trade of any country in the world, when we add its exports and imports together. They don't seem to realize that a man in London can find out now from his morning paper what the rates for money are in New York and if he wants to transfer his money to New York to get the interest (which many people did while the stock-market speculation was going on) all he has to do is telephone to his bankers to send a cable, and the money is transferred.

Whether or not the United States can remain politically isolated from the rest of the world is another question. But it certainly is not commercially isolated, and the necessity of some form of international coöperation is really a very vital thing for this country. A man who engages in it ought to be encouraged instead of abused.

There are a lot of difficulties that confront an American when he undertakes to be an international coöperator. One of them has been mentioned by Sir Charles Addis, that is, the language difficulty. Most Americans can't speak a word of any language except American. I know my own experience, I landed in a country of eight million people, where I didn't know a single individual or a word of the language, and I had to operate the way most Americans do—through an interpreter. Talking through an interpreter is an art. You have to use

simple words, simple phrases, and you have to repeat more than once in order to get your idea across, and you have to remember that the interpreter doesn't understand American slang. Most Americans go breezing right ahead with an interpreter, uttering all sorts of colloquial phrases and heaven only knows what the interpreter says—I don't know!

I can give you an illustration of what I mean and though we weren't talking through an interpreter the principle is the same. I heard a very intelligent friend of mine at the time the Young Plan Conference was on in Paris, talking to a foreigner who was an extremely intelligent man and who spoke English very well, and we thought that he understood English perfectly. In the course of that conversation, my friend said something about another person connected with the reparation negotiations being "off the reservation". You would have said this foreigner understood English perfectly—colloquialisms and everything else. But they are so confounded polite they won't tell you—they won't tell you when they don't understand these things. They are too polite to do it. An American would say, "Stop! Hold on! I don't get it", but they don't do that.

This man had a slightly puzzled look, but the conversation went on. I knew this chap pretty well and finally I said, "Here, did you understand what 'off the reservation' meant?" He became very much embarrassed, and finally, after cross-examination (I knew him well enough to cross-examine him), becoming still more embarrassed, he admitted that he hadn't the slightest idea what it meant. Then we had to sit down and carefully and patiently explain to him about the Sioux Indians, the Government Reservations, and what "going on the war-path" meant. He finally said, "I see", but I am not sure that he saw.

There is another great difficulty that all Americans find in these negotiations that I have observed. I say, "all Americans"—they don't all have it, but most of us have, and I can illustrate that by telling you an anecdote that President Eliot, of Harvard, used to enjoy telling very much.

He was elected president of Harvard when he was a young man thirty-five years old. A few days after his election, he met on the street in Boston an old friend of his father's, who

said to him, "Charles, what quality do you think you will need most as president of Harvard?"

Mr. Eliot suggested intelligence, industry and wisdom. The man said, "No, those are not the qualities you will need most."

Mr. Eliot, somewhat surprised, said, "What is it?"

His father's friend replied, "Patience."

And Mr. Eliot always used to end that story by saying "That friend of my father's was a very wise man!"

Now, Americans are impatient, they want to rush into a place and get everything done quickly. It is very difficult for them to understand why other people's minds don't work the same way, why they don't go at a thing the way we do. Often they are not very tolerant about making a serious attempt to understand the difficulties and troubles of the other man. These people usually have an idea and if you will take the trouble and time to get at it, even if you can't agree with them, you will find the atmosphere is a good deal better.

I remember when I was in Hungary, we had some money there which was to be spent on my approval for productive capital investment—I want to say right now there are two phrases that you want to look out for if you ever hear them—one is "agrarian reform", and the other, "productive capital investment".

The undersecretary of finance, with whom I couldn't communicate at all, although he ultimately became a great friend of mine, came to see me, beaming all over, one day, and said, "I have a splendid productive capital investment for you. You give me the money for it."

I said, "Well, what is it?"

He said, "I am going to build a grandstand for the Jockey Club at the race track."

I said, "How do you get that way? It doesn't sound to me like a productive capital investment, but I should like to hear your reasons for it."

"Well", he said. "I have a point here. The State has an interest in the Pari-Mutuel Pool", (which was quite true; they had a very small interest). He said, "If we build a grandstand at the race track for the Jockey Club, more people

will go to the races in order to see the members of the Jockey Club sitting in the grandstand," (which was also true) "and more money will be bet at the races and the interest of the State in the Pari-Mutuel Pool will be increased, and that is a very fine productive capital investment."

I had to tell him I couldn't accept that as a productive capital investment, but he was quite satisfied. In the first place, he had had a chance to explain to me his reason. He didn't have to cut it off short at the beginning. In the second place, he knew perfectly well when he came in that I was going to turn it down, but he had to satisfy somebody else by saying he had presented it.

It is a very difficult thing for Americans to realize the attitude of mind of the foreigner who doesn't think exactly the way they do, and that what the foreigner says doesn't mean exactly the same thing it would mean if it were said by an American. The American persists in believing that every reasonable human being ought to have mental operations the same as his own. That isn't true.

I was very glad to hear Sir Charles Addis say that they had had somewhat the same experience in the international bank. While it may sound as if it were a trifling matter, it is really one of the great obstacles to international coöperation. If you have a little tolerance, make a serious attempt to find out what the other fellow's view is, which takes a long time and is often very tiresome; if you make a serious attempt, in case you can't agree with him, to get him to understand why you can't agree with him, a great many difficulties will be solved.

I was originally supposed to speak in the morning, and I was supposed to speak on *The Philosophy of the Young Plan*. The Young Plan is a very long, complicated document, highly technical. It has been discussed all day today. Some of you understand it thoroughly, no doubt, but it occurred to me (though I may be carrying coals to Newcastle) that you might like to hear a few of what I consider the high spots, the really important things in that Plan. I feel perfectly free to talk about it because, although I was attached to the Young Plan delegation, I was attached in a very minor capacity and I never did anything important in connection with it. I was a member, and I am very proud of having been elected presi-

dent of an organization known as the Bellhops' Club. The qualifications were that you had to run errands. We were never allowed in with the big boys. We could sometimes go down to Joseph's and see Mr. Lamont and Mr. J. P. Morgan and Mr. Owen Young and Mr. Nelson Perkins and Mr. Parker Gilbert eating lunch there, but we had to sit over on the other side of the room on the theory that cats may look at kings. We couldn't go there often anyway, because it was too expensive. The chief qualification was that you ran errands and didn't do any important work, and if you did too much work, you got demoted. Unfortunately, word of this got out and it appeared in the public press of the United States. I received a clipping from home, from a paper in Newark, New Jersey, which had a grand headline on it, that read, "The most exclusive club in the world. J. P. Morgan can't get in—he works." I feel I can say something about the Young Plan because I am not entitled to any credit concerning it at all.

The first and important thing about it is that it reduces the liabilities of Germany for the next ten years, from one-third to one-quarter of what they were under the existing Dawes Plan. That is a great reduction.

The next thing about it is the philosophy which runs through that sentence with this word "tendencious". I don't know what "tendencious" means, but if it is what I think it means, I don't like it.

They got all foreign control out of Germany. Nobody wants a foreign controller in his country, no matter who the controller is. They put Germany on her own and it is up to Germany to carry out the Plan and her word is the only security for it. All the atmosphere of war and the machinery of the Treaty of Versailles have disappeared, and the Bank for International Settlements has been substituted.

The next thing is the amount of the burden put upon Germany. You have all seen in the newspapers recently a good many dispatches, rather intimating that the people who got up the Young Plan put upon Germany an unreasonable burden, a greater burden than she could bear.

What are the facts about it? Look at the national debts of the different countries since the Young Plan went into effect and reduce them to billions of dollars. For Great Britain the

figure is 37 billions, for France 14, for Germany $10\frac{1}{2}$ —between 10 and 11,¹ for Italy $6\frac{1}{2}$. That certainly is not an unfair distribution of the burdens of the war among those particular countries. You get about the same result if you take per capita figures or percentages of national income, per capita taxation or per capita debt and all the other different statistics that economists commonly use.

You may be surprised to hear that the national debt of Germany is so small. That is because they have no internal debt. They haven't any internal debt because the depreciation of the mark wiped it out. That of course, is one of the great tragedies of the war. The two great tragedies of the war really are the Russian émigrés and the ruin of the elderly middle class who had saved money and as they thought, safely and prudently invested it to have something for their old age, but who lost it by depreciation.

Of course, they have been very seriously damaged in other countries. Don't forget that the Frenchman has lost eighty per cent of his similar savings because the franc is revalued at one-fifth; Belgium lost pretty much the same; Italy has lost about the same. In Germany, if a man held bonds in 1920 and held them continuously since he bought them, I understand that by the revaluation law in Germany, he gets something like ten or twelve per cent back, so he hasn't lost it all. Those cases, of course, are rare.

I realize that is the reason why the public debt of Germany is so low compared with these other countries. They have no internal debt. However, that is something that has happened in the past and I think the peak of the economic effects of the ruin of that particular class of the population is behind them. While great suffering still exists among those people, some have children growing up, old enough to work, at the new scale of wages.

Of course, it is quite true that Germany will have to be a debtor country for quite a while. That is not pleasant but it is not unbearable. The United States was a debtor country for at least two generations, if not three, and managed to survive

¹ This includes the present value of all Germany's payments under the Young Plan, capitalized at 9 billion dollars.

it. Belgium was a debtor country for many years, but managed to survive. It is not pleasant but it is bearable.

Of course, I realize that since the Young Plan was adopted there has been an economic depression which has made it much more difficult for Germany to bear the burden of it. We all hope that is temporary. We have heard Mr. Lamont give us the list of panics. We find that good times come and go and then good times come again, and we all hope and believe that this is only a temporary depression. At the present time, it takes only one-eighth of the German taxes to pay the charges, under the Young Plan, and they have the other seven-eighths free for their other expenses. Moreover, there is great room for reform which will save them a great deal of money—budgetary and fiscal reforms which were advocated repeatedly by Mr. Parker Gilbert; and I am glad to see the present Chancellor of Germany is making a sincere and courageous attempt to carry them out.

Then you never know what is going to happen. The burdens that look big now may not look so big a little while later. There was one of the Belgian delegates at the Young Plan Conference who was Mr. Gutt's colleague, Mr. Franqui, a very shrewd man of wide experience in administration in affairs and in banking. Though he spoke English imperfectly he was a "forceful but witty" speaker and he had a conversation one day with Owen Young. He was not very keen about names and he always called Mr. Young, "Owenyoung". We debated a long time in the Bellhops' Club as to whether he thought that was his whole name—one name, or two names—and the Bellhops were of the opinion that Franqui thought it was all one word.

He came to Owen Young one day and said, "Owenyoung, why all these great men sit around here discussing a few milliards?" (Over there they call billions "milliards".) "What a few milliards amount to? Your grandmother alive?"

Owen Young was a little surprised, but he replied, "No, my grandmother is dead."

Mr. Franqui continued, "Owenyoung, your grandmother come to life today, she say to you, 'Owenyoung, you live Ritz Hotel. How much money you spend Ritz Hotel today?' You tell your grandmother. She drop dead!"

Well, there is a lot of sound, forceful but witty economic philosophy in that. In a short time—if this is only a temporary depression as we all hope and believe it is—these things may not look so bad as they do today.

There is one other question which is a high spot in the Young Plan, this question about what effect it has on the war debts. I am not going to argue or discuss the war-debt question. This is not the time nor the place for it, and there has been so much nonsense talked about it from every quarter that I probably would utter some myself. But the net effect of the Young Plan on the war debt is this:

There may be, in fact there is, no legal connection, as our Government in Washington says, between war debts and reparations, but there is a practical connection that you can't get away from, and that is the fact that the gentlemen of the countries which owe us the debts are intending to use for the payment of those debts two-thirds of the amount paid by Germany by way of reparations. In that way, those debts are undoubtedly a burden on Germany, but none on these other countries because they take in from Germany exactly what they pay out to us. That is the net effect of the thing. Our debtors are relieved so long as Germany keeps on paying. So long as the payments, under the Young Plan, are made our war-debt agreements are not the burden they were, on those countries, because they get the money from Germany. If they didn't use what they get from Germany to pay us perhaps they would have it for their own damages, but they have made an agreement among themselves that if there is any reduction in the next twenty-five or thirty years they keep one-third of what they can get in the way of reduction and after that, don't keep any.

That is the net effect of it. If Germany should stop the payments under the Young Plan, you will find that every country concerned in these war-debt agreements, our own as well as the others, is going to be confronted with some very awkward questions to decide. That is something which it is useful to have in your mind in considering the effect of reparations on the war debts.

The last high spot in the Young Plan is the International Bank, which is a double-barreled organization. It handles the

reparation payments, in which as you can see, we are indirectly very vitally interested because two-thirds of them are coming indirectly to this country in the form of payments on war debts. The Bank's other function is a great attempt at international collaboration. I know that Mr. McGarrah doesn't like to have too much said about himself, but I would like to say something from a little different angle than what has been said.

Mr. McGarrah has given up a very important and useful position in this country where he was perfectly happy; he has cut himself off from all his connections and associations here because he can come home only at intervals; he has gone to live in a dull town where I am credibly informed if you are found on the street after eight o'clock at night, you are arrested for disturbing the peace, to be the head of an international menagerie which is difficult to control. He is the head of a great experiment which may have very vital consequences for every country and not the least for this country, because this is a great trading country and it is very important to us that confidence should be established and that nobody should rock the boat. I think in undertaking that experiment, Mr. McGarrah is entitled to the gratitude and thanks of all of us.

A good many of you (I see five members of the Bellhops' Club at this table) have had a good deal of experience in international coöperation. Some of you who haven't had it may have it in the future, and I can only say that my advice would be to remember two or three things: One of them is, exercise tolerance; another is, make a really serious attempt to get at the other fellow's viewpoint; the next thing you need is wisdom, and the last is patience—and the greatest of these is patience!

ECONOMIC PESSIMISM

GATES W. MCGARRAH

President of the Bank for International Settlements, Basle, Switzerland;
formerly Chairman of the Board, Federal Reserve Bank of New York

ONCE a fog detained me at Quarantine for twenty-four hours, and from what I have been reading in the newspapers I expected the pessimism here would be so thick we would not be able to reach the dock. It is pretty bad. Two years ago at dinner if you wanted to talk on a subject other than the stock market, you had to use a megaphone. Now, if you want to ask about a sound investment, you have to use a fog-horn to get through the gloom. We go to such extremes. When business is good, the sky is the limit! When it is bad, you know where some say it has gone!

That the business crisis, as it is frequently called, prevails throughout the world, is a fact; consequently there must be fundamental causes. There are as many opinions as there are economists, and there are many economists. No unemployment in this profession! If you ask one, he might tell you that the price level, plus the average daily clearings divided by car loadings gives the answer; whereupon another would reply, "That may be true, but the charts do not show it". So there you are! An eminent student of the gold problem recently had the temerity to say that it is not overproduction but the inadequate distribution of gold. Millions feel that way!

A prominent manufacturer tells me it is difficult to estimate the amount of depression due to the falling-off in the quality of dress goods required now-a-days. He complained also of the great decrease in the consumption of cotton goods, and then he commenced to talk about the substitution of silk, and a lot of details in which I immediately lost interest.

Another economist tells us that much of it is due to the repercussion from the debauch of speculation and high finance in this country, which lasted nearly five years; and this is probably true, to the extent that buying power has been

impaired due to the necessity of liquidating debts incurred by losses and extravagant living. It is doubtful, while this process is going on, if prices and business can be stimulated by abnormally cheap money.

As to the opinions expressed on buying power and the decidedly related subject of labor, Keynes says we are going to hear much about technological unemployment. There are some who ridicule this theory, but it deserves study. In this country, at least, it is possible that much unemployment may be due to the discovery of means of economizing the use of labor, outrunning the pace at which we are able to find new uses for labor.

Why is this not the case on the farm? Some years ago we were told that the slogan "Back to the Farm" should be sounded constantly; now farm machinery has been developed to such an extent that on large farms, at least, labor is not a problem and the products of these farms are frequently without a good market.

Whatever the causes, there are new problems as well as old, and their solution is not going to be found while we remain in an atmosphere of pessimism, nor by adopting uneconomical expedients.

In other and plainer words, if commodity prices must go lower in order to bring about a reasonable and logical adjustment between supply and demand and the benefits accruing from the operations of import and export, why not face it in a spirit of courage and determination and have done with it?

While I was given much latitude for my remarks, I have no desire to disregard the rules of hospitality; but please let me say that it is hardly becoming in the people of this great country, one of the richest on earth, to get blue and discouraged, while there are several others whose problems are of a far more serious nature, and whose people are carrying on in the finest spirit.

In addition I would like to read a paragraph from an article in one of our periodicals, *The Manufacturer's Record*:

There has been too much talk of hard times in the United States. The American people have enjoyed and are even now enjoying comforts and conveniences and luxuries beyond the dreams of any nation in all history.

We are all so taken up with details of earning and planning and the influence of some unfortunate developments, that our ability for true valuation gets impaired; and it is all of such a personal nature that we lose sight of our responsibility for what happens or may happen in the economic system.

Finally, as individuals and communities we should cheerfully adjust ourselves to present conditions (for we are all more or less responsible) and do everything possible to bring about an economic correction. In addition to our efforts in that direction, may I venture to suggest that some comfort and encouragement may be found in giving more attention to ascertaining real values and less attention to daily quotations.

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